STRONGCO CORPORATION
2013 ANNUAL REPORT

ON THE COVER:
Strongco's newest branch in Fort McMurray, Alberta, which opened in the first quarter of 2014

BELOW:
The new branch in Saint-Augustin-de-Desmaures, near Quebec City, which opened in December 2013

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2013
STRONGCO CORPORATION ANNUAL REPORT

CORPORATE PROFILE

Strongco Corporation is a major multiline mobile equipment dealer with operations in Canada and the United States. Strongco sells, rents and services equipment used in sectors such as construction, infrastructure, mining, oil and gas, utilities, municipalities, waste management and forestry. The Company has 731 employees serving customers from 27 branches in Canada and five in the United States, operating under Chadwick-BaRoss. Strongco represents leading equipment manufacturers with globally recognized brands, including Volvo Construction Equipment, Case Construction, Manitowoc Crane, National, Grove, Terex Cedarapids, Terex Finlay, Ponsse, Fassi, Allied Construction, Taylor, ESCO, Dressta, Sennebogen, Jekko, Takeuchi, Link-Belt, Kawasaki and K-Tec Earthmovers. Strongco is listed on the Toronto Stock Exchange under the symbol SQP.

STRONGCO AT A GLANCE

Strongco operates 27 Canadian branches in Alberta, Ontario, Quebec, Newfoundland and Labrador, New Brunswick and Nova Scotia. In New England, Strongco serves customers from five branches – three in Maine and one each in Massachusetts and New Hampshire – all operated by Chadwick-BaRoss.

32

Branches located in regions across Canada and in the United States

731

Employees serving customers through Strongco's network of branches in Canada and the United States

82%

Employees who feel that Strongco is a good or great place to work, an increase of 14% from 2010

78%

Employees who feel optimistic about Strongco's future


STRONGCO
VOLVO
Pièces


Manitowoc


580 Super N
CASE
STRONGCO


STRONGCO
VOLVO
A40E
VOLVO

OPERATING HIGHLIGHTS

EXPANDED BRANCH NETWORK Strongco expanded its branch network with new branches in Fort McMurray, Alberta and Saint-Augustin-de-Desmaures, near Quebec City, to provide greater capacity to serve customers.

ENHANCED SALES ORGANIZATION The Company made organizational improvements to heighten its market presence and better serve customers by restructuring operations to sell its products more effectively.

SOLID REVENUE GROWTH Strongco continued its record of solid growth in revenues from higher Equipment Sales and Product Support over 2012.

DIVERSIFIED GROWING MARKETS Strongco increased its share in its diversified and growing markets in sectors such as construction, infrastructure, mining, oil and gas, utilities, municipalities, waste management and forestry.

SUCCESSFUL GROWTH STRATEGY With a $50 million capital investment in its organization and people, Strongco has significantly strengthened its ability to serve customers and to pursue long-term profitable growth.

GREATER MANAGEMENT INFORMATION VISIBILITY Strongco's new SAP-based Dealer Management System will, when completed, provide real-time information to the business to facilitate timely decisions and better serve customers.

FINANCIAL HIGHLIGHTS

Strongco continued its record of solid revenue growth and improved its market position in all regions where it operates.

KEY METRICS

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	2013	2012	2011	2010
		(note 2)		
Revenues	$ 485.7	$ 464.2	$ 423.2	$ 294.7
Operating Income	$ 14.5	$ 17.7	$ 17.0	$ 3.9
Earnings (loss) before income taxes	$ 3.7	$ 9.7	$ 11.1	$ (0.90)
Net income (loss)	$ 3.0	$ 7.0	$ 9.9	$ (0.90)
Basic and diluted earnings (loss) per share	$ 0.23	$ 0.53	$ 0.76	$ (0.08)
EBITDA (note 1)	$ 45.0	$ 48.3	$ 43.1	$ 24.2
Total assets	$ 386.6	$ 382.8	$ 304.6	$ 215.2
Total liabilities	$ 313.5	$ 318.1	$ 248.0	$ 170.2
Shareholders' equity	73.1	64.7	56.6	45.0

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations.

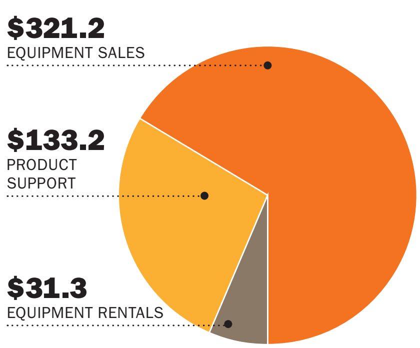
Note 2 – Comparative figures for 2012 have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

TOTAL REVENUES

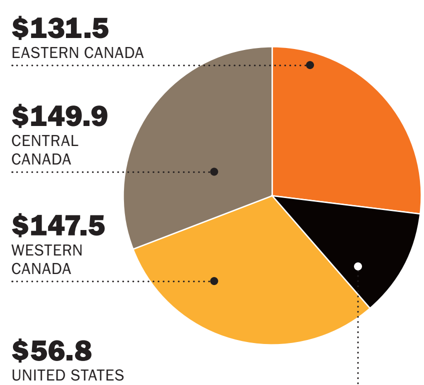
$485.7M

Despite market conditions and a decline in sales in Eastern Canada, Strongco grew its overall revenues with increased sales of Equipment and Product Support.

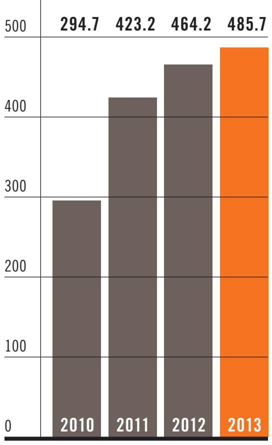
REVENUES BY SEGMENT
($ MILLIONS)



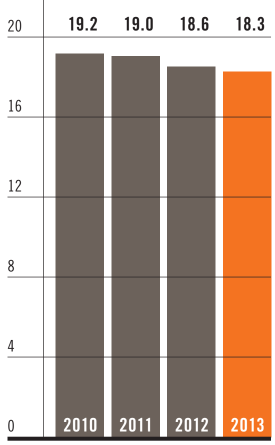
REVENUES BY GEOGRAPHIC AREA
($ MILLIONS)



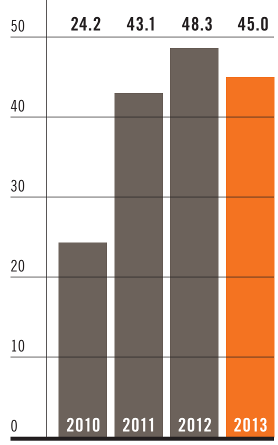
REVENUES
($ MILLIONS)



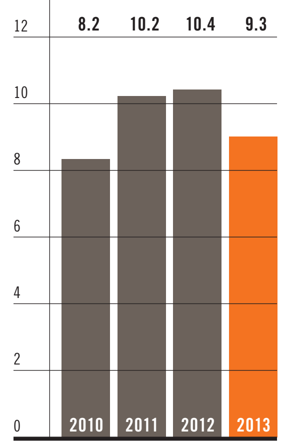
GROSS MARGIN
(% OF REVENUES)



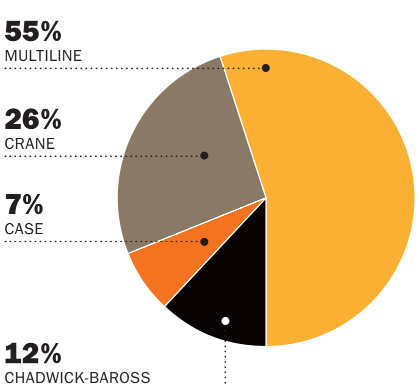
EBITDA
($ MILLIONS)



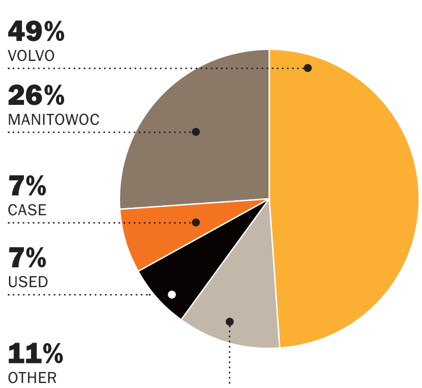
EBITDA MARGIN
(% OF REVENUES)



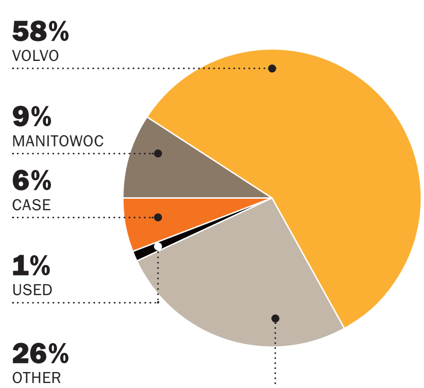
REVENUES BY BUSINESS UNIT



EQUIPMENT SALES BY BRAND



PARTS REVENUE BY BRAND



PRESIDENT'S MESSAGE

In 2013, we experienced challenging market conditions due to the substantial decline in Quebec and Eastern Canada, widespread flooding in Alberta and a still stumbling U.S. economy. Strongco started the year with an optimistic outlook, having opened a new Volvo branch in Alberta in 2012, while completing the upgrade of our dedicated Crane branch in Edmonton and with two new branches under construction – one in Fort McMurray, Alberta and the other in Saint-Augustin-de-Desmaures, near Quebec City. Nevertheless, the overall markets that we serve were down in 2013, driven mostly by the situation in Quebec.

Despite these market conditions and a decline of 9% in our sales in Eastern Canada, we grew our overall sales of Equipment and Product Support for the year. So, I am satisfied that we have extended Strongco's record of solid revenue growth and have improved our market position in all of the regions where we operate. However, I am less satisfied in that we were unsuccessful in offsetting the increased costs of our new and upgraded branches and the cost of Strongco's improved sales organization. As a result, Operating Income and EBITDA were both down by just over $3 million from last year. However, we have added key customer-facing people and, while increased sales and market share in a down market are a good indication that we are doing the right things, we also acknowledge that new people and new branches take time to make the full contribution that we expect from them.

Equally, I am not satisfied with the progress that we made in inventory reduction in 2013. While a year-over-year reduction of $32 million in inventory levels combined with increased sales of 5% may seem satisfactory, we carried too much inventory throughout the year. As a result, interest costs increased over last year by $2.8 million. In 2014, we will continue to focus on achieving better inventory management and improved delivery management in conjunction with our suppliers to bring greater efficiency to this process.

Overall, we are not satisfied with the results achieved for 2013 but believe that we are heading in the right direction. After a $50 million capital investment made in our organization and an investment in people, we believe that we have in place the branch network and the sales organization to strengthen our overall ability to serve customers and enhance our reputation as a leading supplier in the marketplace, and that we have created the right framework for securing future growth.

SENIOR MANAGEMENT TEAM

Stuart Welch
President
Chadwick-BaRoss, Inc.

Stephen Slama
Vice President
Multiline

Robert H.R. Dryburgh
President and
Chief Executive Officer

William J. Ostrander
Vice President
Crane

Oliver Nachevski
Regional Vice President
Case

Expanded Branch Network

In 2013, Strongco completed its branch network upgrades in Alberta and Quebec as part of our strategy to deliver industry-leading service to our customers in these regions. Our new branch in Fort McMurray, opened in the first quarter of 2014, builds on the opening of our new Acheson branch near Edmonton last year and the upgrade of our Edmonton Crane branch.

In Quebec, the new branch in Saint-Augustin-de-Desmaures, a 40,500-square-foot facility outside Quebec City, opened at the end of last year and better positions us as an industry leader in the Quebec region and provides significantly greater capacity for us to serve our Quebec customers.

Key Organizational Upgrades

These branch upgrades complement the organizational improvements that we have made to improve our visibility and build market share so that we can better serve our customers. On the sales side, we have restructured our organization across the regions to heighten our ability to sell our products more effectively to more customers in a more compelling way.

These initiatives to heighten our ability to serve customers are matched by the development of Strongco's Dealer Management System, a new SAP-based management information system now in its implementation phase. The new system will provide management with greater visibility and real-time information on the business to facilitate timely decisions that will allow us to take better care of our customers. Our "go live" date is scheduled for October 1, 2014.

REGIONAL LEADERSHIP

Robert Bill
Regional Vice President
Multiline, Ontario

Stephen George
Regional Vice President
Multiline, Atlantic Canada

Yannick Montagano
Regional Vice President
Multiline, Québec

Rick Ziegler
Regional Vice President
Crane, Alberta

Financial Results

Our revenues increased 5% to $485.7 million over 2012, and as a result of higher overall revenues, gross margins increased to $88.9 million from $86.5 million in 2012. EBITDA was $45.0 million, which compares to $48.3 million in 2012.

Pre-tax income was lower than in 2012 as a result of higher interest-bearing debt levels primarily related to the financing of higher levels of equipment inventory carried in 2013, as well as higher bank interest rates in 2013. Interest-bearing debt increased during the year partially to finance the cost of land and construction of new branches in Alberta and Quebec and to finance the increase in equipment inventory during the first half of the year. Equipment inventory and related equipment finance notes did, however, decline as anticipated in the third and fourth quarters.

Outlook

After two years of robust growth, heavy equipment markets in Canada eased in 2013 with only modest growth forecast for 2014. Growth will be strongest in Alberta, led by ongoing activity in the oil sector, and weakest in Quebec, where activity continues to be stifled by the ongoing investigation of corruption in the construction industry by the Charbonneau Commission, as well as the suspension of infrastructure spending and increased mining royalties imposed by the provincial government. With this economic backdrop, there is expected to be continued demand for heavy equipment and cranes. While varying from region to region, we anticipate that overall heavy equipment markets across Canada will remain flat year over year in 2014.

> "We have restructured our organization across the regions to heighten our ability to sell our products more effectively to more customers in a more compelling way."

Heavy equipment markets in New England are also expected to remain flat in 2014, with a modest improvement in the latter part of the year as a result of a gradual recovery in the housing market. The used equipment market is expected to continue to be strong in 2014 and to outstrip the new market, and rentals activity should remain robust.

Over the past two years, Strongco has made significant investments in new branches to expand and improve the Company's presence in key markets. At the same time investments were being made in new branches, the Company has also built and improved its sales organization with additional territory managers, customer sales representatives, product support specialists and an enhanced sales management structure, and has increased the number of skilled service technicians across all business units and regions to better meet customer needs.

The benefits of these investments were just beginning to be realized in 2013, as evidenced by the market share gains achieved during the year. Although the new facilities and additional people have added to the Company's cost structure, we expect to reap further benefits from these investments in the upcoming year and beyond, and forecast continued revenue growth and improved market share performance and profitability in 2014.

Improved inventory management and debt reduction will continue to be the Company's focus in 2014 with the goal of reducing balance sheet leverage and lowering interest costs, and with the recent infrastructure improvements now in place, emphasis is being placed on further improving operating efficiency.

Summary

Looking ahead, Strongco's prospects are promising. Although demand for heavy equipment may soften in certain regions, our investment in new branches in Alberta and Quebec, as well as the organizational improvements made in 2013, will heighten our ability to serve our customers and deliver important gains in revenue and market share in the future.

In closing, 2013 has been another important year for Strongco in its journey to become a market-leading business. I'd like to thank our employees for their dedication and hard work, our customers for their loyalty and trust, our shareholders for their continued support and our board members for their guidance and counsel.

Robert H.R. Dryburgh
President and Chief Executive Officer

FINANCIAL REPORTING
FOR 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides a review of the consolidated financial condition and results of operations of Strongco Corporation, Strongco GP Inc. and Strongco Limited Partnership, collectively referred to as "Strongco" or "the Company", as at and for the year ended December 31, 2013. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements as at and for the year ended December 31, 2013. For additional information and details, readers are referred to the Company's quarterly unaudited consolidated financial statements and quarterly MD&A for fiscal 2013 and fiscal 2012 as well as the Company's Notice of Annual Meeting of Shareholders and Information Circular ("IC") dated March 26, 2014, and the Company's Annual Information Form ("AIF") dated March 26, 2014, all of which are published separately and are available on SEDAR at www.sedar.com.

Unless otherwise indicated, all financial information within this MD&A is in millions of Canadian dollars except per share amounts. The information in this MD&A is current to March 26, 2014.

Financial Highlights

- Revenue increased by 5% to $485.7 million
- Gross margin increased by 3% to $88.9 million
- Operating income of $14.5 million compared to $17.7 million in 2012
- EBITDA of $45.0 million compared to $48.3 million in 2012
- Net income totalled $3.0 million compared to $7.0 million in 2012
- Earnings per share of $0.23 compared to $0.53 in 2012

INCOME STATEMENT HIGHLIGHTS

($ MILLIONS, EXCEPT PER SHARE/UNIT AMOUNTS)

YEAR ENDED DECEMBER 31	2013	2012 (note 2)	2011
Revenues	$ 485.7	$ 464.2	$ 423.2
Operating income	14.5	17.7	17.0
Income before income taxes	3.7	9.7	11.1
Net income	$ 3.0	$ 7.0	$ 9.9
Basic and diluted earnings per share	$ 0.23	$ 0.53	$ 0.76
EBITDA (note 1)	$ 45.0	$ 48.3	$ 43.1

BALANCE SHEET HIGHLIGHTS

($ MILLIONS, EXCEPT PER SHARE/UNIT AMOUNTS)

YEAR ENDED DECEMBER 31	2013	2012 (note 2)	2011
Equipment inventory in stock	$ 156.8	$ 176.0	$ 135.3
Equipment inventory on rental contracts with purchase options	38.9	48.0	38.1
Equipment inventory on short-term rental contracts	16.3	20.4	11.9
Total equipment inventory	$ 212.0	$ 244.4	$ 185.3
Total assets	$ 386.6	$ 382.8	$ 304.6
Debt (bank debt and other notes payable)	$ 67.3	$ 38.4	$ 30.8
Equipment notes payable	193.0	209.1	160.4
Total liabilities	$ 313.5	$ 318.1	$ 248.0

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under International Financial Reporting Standards ("IFRS") and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.

Note 2 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

Outlook

After two years of robust growth as construction markets recovered following the recession, the momentum in heavy equipment markets in Canada eased in 2013. Most economists are forecasting modest growth for Canada overall in 2014 with construction markets, by and large, expected to remain active. Growth is expected to be strongest in Alberta, led by ongoing activity in the oil sector, and weakest in Quebec, where activity continues to be stifled by the ongoing investigation of corruption in the construction industry by the Charbonneau Commission, as well as the suspension of infrastructure spending and increased mining royalties imposed by the provincial government. With this economic backdrop, there is expected to be continued demand for heavy equipment and cranes. While varying from region to region, management anticipates that overall heavy equipment markets across Canada will remain flat year over year in 2014.

Heavy equipment markets in New England are also expected to remain flat in 2014 with a modest improvement in the latter part of the year as a result of a gradual recovery in the housing market.

Over the past two years, Strongco has made significant investments in new branches to expand and improve the Company's presence in key markets. In 2012, new branches were opened in Acheson, Alberta, on the outskirts of Edmonton, in Baie-Comeau, Quebec to replace an old branch and in Orillia, Ontario to further penetrate the aggregates market in the area. In 2013, new branches were built in Saint-Augustin-de-Desmaures, Quebec to replace the old branch just outside Quebec City and in Fort McMurray, Alberta to better service customers in this key northern Alberta market. The new branch in Saint-Augustin opened in December 2013 and construction of the new Fort McMurray branch was completed in March 2014. At the same time investments were being made in new branches, the Company has also been building and improving its sales organization with additional territory managers, customer sales representatives, product support specialists and an enhanced sales management structure, and has increased the number of skilled service technicians across all business units and regions to better service and meet customer demand.

The benefits of these investments were just beginning to be realized in 2013, as evidenced by the market share gains achieved during the year as well as the increased level of product support revenues. Although the new facilities and additional people have added to the Company's cost structure, management expects to reap further benefits from these investments in the upcoming year and beyond and is projecting continued revenue growth and improved market share performance in 2014, despite the expected flat overall market, which will lead to an improvement in bottom line profitability.

Improved inventory management and debt reduction will continue to be the Company's focus in 2014 with the goal of reducing balance sheet leverage and lowering interest costs, and with the recent infrastructure improvements now in place, emphasis is being placed on further improving operating efficiency.

Early indications show that, despite the long and difficult winter, sales growth and market share improvement are continuing in 2014 and management remains optimistic regarding the outlook for the year.

Company Overview

Strongco is one of the largest multiline mobile equipment distributors in Canada. In addition, through the acquisition of Chadwick-BaRoss, Inc. in February 2011, the Company is also a multiline distributor of mobile construction equipment in the New England region of the United States. Strongco sells and rents new and used equipment and provides after-sale product support (parts and service) to customers who operate in infrastructure, construction, mining, oil and gas exploration, forestry and industrial markets. This business distributes numerous equipment lines in various geographic territories. The primary lines distributed include those manufactured by:

i. Volvo Construction Equipment North America Inc. ("Volvo"), for which Strongco has distribution agreements in each of Alberta, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador in Canada, and Maine and New Hampshire in the United States;
ii. Case Corporation ("Case"), for which Strongco has a distribution agreement for a substantial portion of Ontario; and
iii. Manitowoc Crane Group ("Manitowoc"), for which Strongco has distribution agreements for the Manitowoc, Grove and National brands covering much of Canada.

Distribution agreements with Volvo and Case provide Strongco exclusive rights to distribute the products manufactured by these manufacturers in specific regions and/or provinces.

In addition to the above-noted primary lines, Strongco also distributes several other secondary or complementary equipment lines and attachments, including Terex Cedarapids, Terex Finlay, Ponsse, Fassi, Allied Construction, Taylor, ESCO, Dressta, Sennebogen, Jekko, Takeuchi, Link-Belt and Kawasaki. Strongco is listed on the Toronto Stock Exchange under the symbol SQP.

Financial Results – Annual

CONSOLIDATED RESULTS OF OPERATIONS

	YEAR ENDED DECEMBER 31			2013/2012		2012/2011	
($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	2013	2012	2011	$ CHANGE	% CHANGE	$ CHANGE	% CHANGE
		(note 2)					
Revenues	$ 485,721	$ 464,181	$ 423,153	$ 21,540	5%	$ 41,028	10%
Cost of sales	396,869	377,727	342,601	19,142	5%	35,126	10%
Gross Margin	88,852	86,454	80,552	2,398	3%	5,902	7%
Administration, distribution and selling expenses	77,728	70,552	64,742	7,176	10%	5,810	9%
Other income	(3,359)	(1,828)	(1,163)	(1,531)	84%	(665)	57%
Operating income	14,483	17,730	16,973	(3,247)	–18%	757	4%
Interest expense	10,814	8,012	5,841	2,802	35%	2,171	37%
Earnings (loss) from continuing operations before income taxes	3,669	9,718	11,132	(6,049)	–62%	(1,414)	13%
Provision for income taxes	674	2,697	1,203	(2,023)	–75%	1,494	N/A
Net income (loss)	$ 2,995	$ 7,021	$ 9,929	$ (4,026)	–57%	$ (2,908)	
Basic and diluted earnings per share from continuing operations	$ 0.23	$ 0.53	$ 0.76	$ (0.30)	–57%	$ (0.23)	–30%
Basic and diluted earnings per share	0.23	0.53	0.76	(0.30)	–57%	(0.23)	–30%
Weighted average number of shares							
– Basic	13,164,900	13,128,719	13,049,126				
– Diluted	13,184,278	13,184,475	13,088,968				
Key financial measures:							
Gross margin as a percentage of revenues	18.3%	18.6%	19.0%				
Administration, distribution and selling expenses as percentage of revenues	16.0%	15.2%	15.3%				
Operating income as a percentage of revenues	3.0%	4.0%	4.0%				
EBITDA (note 1)	$ 45,003	$ 48,312	$ 43,067	$ (3,309)	–7%	$ 5,245	12%

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under International Financial Reporting Standards ("IFRS") and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.
Note 2 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

MARKET OVERVIEW

Strongco participates in a number of geographic regions and in a wide range of end use markets that utilize heavy equipment and which may have differing economic cycles. Construction markets generally follow the cycles of the broader economy, but typically lag by periods ranging up to 12 months. As construction markets recover following a recession, demand for heavy equipment normally improves as activity and confidence in construction markets build. In addition, as the financial resources of heavy equipment customers strengthen, they have historically replenished and upgraded their fleets after a period of restrained capital expenditures.

Demand in oil and gas and mining markets is affected by the economy but also tends to be driven by the global demand and pricing of the relevant commodities. Recovery in equipment markets is normally first evident in equipment used in earth moving applications and followed by cranes, which are typically utilized in later phases of construction. Cranes are also extensively utilized in the oil and gas sector. Rental of heavy equipment is typically greater following a recession until confidence is restored and financial resources of customers improve.

With the economic recovery in Canada following the recession in 2008/2009, construction markets began to show signs of improvement in the latter half of 2010. Spurred by government stimulus spending for infrastructure projects, construction activity in Canada continued to increase in 2011 and 2012. Correspondingly, demand for new heavy equipment strengthened throughout this period. Initially, while construction markets and demand for heavy equipment were improving, many customers remained reluctant or lacked the financial resources following the recession to commit to the purchase of new construction equipment. This led to an increase in RPOs (see discussion under Equipment Rentals below), which afford customers the flexibility to exercise an option to purchase the equipment at a later date as their financial condition and confidence in construction markets and the economy improve. While RPO activity was expected to slow with the recovery in construction markets and as customer confidence was restored, it increased in 2012, and expanded into markets and product categories where RPO contracts had not previously been utilized. RPO activity has remained strong in 2013, and appears to be a more prevalent and accepted way for customers to purchase equipment.

After two years of robust growth as construction markets recovered following the recession, the momentum in heavy equipment markets in Canada eased in 2013. Challenging weather conditions in the first and second quarters curtailed construction activity in many regions of the country. Construction activity picked up in the third quarter but overall demand for equipment generally remained flat to slightly down from last year across the country, with the exception of Quebec, where markets were impacted by the ongoing investigation into corruption in the construction industry by the Charbonneau Commission and the suspension of infrastructure spending and increased mining royalties imposed by the new provincial government. While Strongco's overall markets were essentially flat compared to the prior year, the Company achieved revenue growth in all regions, except the Atlantic region, and realized market share gains across the country as a result of improved sales performance and the early positive impacts from the commitment made to improve the branch infrastructure and sales organization.

Flooding in Alberta during the month of June damaged many homes and businesses, as well as infrastructure. While the flooding did have a negative impact on economic activity in the second and third quarters, the flood-related pull-back in activity was short-lived and more than offset by the bounce-back in spending and rebuilding efforts in the latter part of the third quarter and fourth quarter. Reconstruction activity is expected to continue over the next several years. The oil production and delivery issues registered at the beginning of 2013 created some uncertainty about the sustainability of Alberta's energy boom. These issues, which included rapidly rising energy production in the United States, the emergence of pipeline bottlenecks and the so-called "bitumen bubble", resulted in the heavily discounted prices received by oil producers in the province early in 2013, which in turn led to a scaling back of activity in Northern Alberta. Fortunately, many of these issues were alleviated in later months as the year progressed. Increased use of rail cars to transport Alberta's unconventional crude to refineries on the U.S. Gulf Coast and the West Coast partially relieved pipeline bottlenecks. This, together with other recent developments, resulted in a rebound in the price for Alberta-produced oil and cleared some of the uncertainty in the province. Activity in the oil sands resumed but at a more controlled pace and the long-term outlook for Alberta is positive. In this environment, the demand for heavy equipment in Alberta in 2013 was up slightly overall with Strongco's main market for general purpose equipment (GPE) and road equipment essentially flat to slightly down, offset by an uptick in compact equipment.

Construction markets in Ontario continued to recover slowly following the recession, but a general lack of optimism and uncertainty over the economy still exists. While pockets of construction activity were stronger in certain areas and around large projects (e.g. mining and forestry in northern Ontario and the Pan Am games), construction markets in Ontario were generally flat throughout 2013. As a result, the equipment market in Ontario generally remained flat in 2013. Many customers continued to have a cautious, if not pessimistic, view concerning the short- and medium-term outlook for construction markets generally in Ontario, which caused them to curtail equipment purchases unless absolutely necessary.

Construction activity in Quebec declined significantly in 2013, due to the ongoing investigation of corruption in the construction industry by the Charbonneau Commission, as well as the suspension of infrastructure spending and increased mining royalties imposed by the new provincial government. As a result, demand for heavy equipment in the region was substantially lower throughout the year. While there is growing political pressure to resume spending to repair and replace the seriously deteriorating infrastructure in the province, markets are expected to remain weak in the near term. While the markets for heavy equipment in Quebec were down close to 20% in 2013, Strongco's unit sales of equipment were down only 5% as the Company improved its market share.

Economic activity in Atlantic Canada remained weak in 2013, with the exception of Newfoundland and Labrador. Infrastructure spending in the region remained constrained, with no significant new programs being announced by any of the provincial governments. As a result, construction markets and demand for heavy equipment were soft. The market for heavy equipment in the Atlantic region was estimated to be down overall by more than 10% in 2013. At the same time, Strongco's unit volumes were essentially flat year over year as the Company improved its market position.

Although the small uptick in residential housing markets and the increased level of new job creation were positive signs of economic recovery in the United States, the improvement has been less noticeable in New England and has not translated into any significant upturn in construction markets in the region. While there was a modest increase in demand for equipment, overall the markets in the area remained depressed in 2013. There remains an oversupply of equipment in the region that has added to an already competitive environment.

REVENUES

A breakdown of revenue for the years ended December 31, 2013, 2012 and 2011 is as follows:

	YEARS ENDED DECEMBER 31			2013/2012	2012/2011
($ MILLIONS)	2013	2012	2011	% CHG	% CHG
Eastern Canada (Atlantic and Quebec)					
Equipment Sales	$ 77.9	$ 87.0	$ 90.1	–10%	–3%
Equipment Rentals	9.8	11.3	11.2	–13%	1%
Product Support	43.8	45.5	42.4	–4%	7%
Total Eastern Canada	$ 131.5	$ 143.8	$ 143.7	–9%	0%
Central Canada (Ontario)					
Equipment Sales	$ 103.9	$ 92.2	$ 89.2	13%	3%
Equipment Rentals	7.2	6.7	5.1	7%	31%
Product Support	38.8	36.0	34.3	8%	5%
Total Central Canada	$ 149.9	$ 134.9	$ 128.6	11%	5%
Western Canada (Manitoba to British Columbia)					
Equipment Sales	$ 105.9	$ 92.3	$ 69.7	15%	32%
Equipment Rentals	9.5	9.6	9.7	–1%	–1%
Product Support	32.1	27.5	24.9	17%	10%
Total Western Canada	$ 147.5	$ 129.4	$ 104.3	14%	24%
Northeastern United States					
Equipment Sales	$ 33.5	$ 34.0	$ 26.9	–1%	26%
Equipment Rentals	4.8	4.7	3.6	2%	31%
Product Support	18.5	17.4	16.1	6%	8%
Total Northeastern United States	$ 56.8	$ 56.1	$ 46.6	1%	20%
Total Revenues					
Equipment Sales	$ 321.2	$ 305.5	$ 275.9	5%	11%
Equipment Rentals	31.3	32.3	29.6	–3%	9%
Product Support	133.2	126.4	117.7	5%	7%
Total	$ 485.7	$ 464.2	$ 423.2	5%	10%

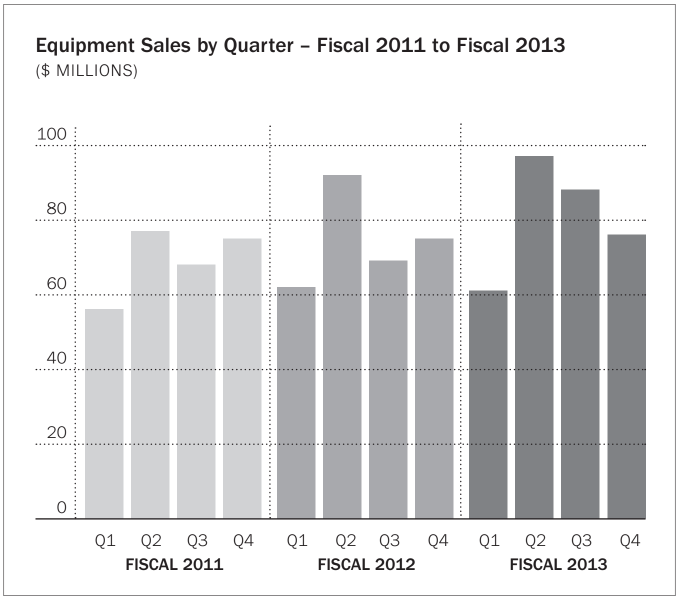
Equipment Sales

Strongco's equipment sales increased by $15.7 million, or 5%, in 2013 to $321.2 million. Sales in Canada increased by $16.2 million or 6% over 2012 and, with the exception of Eastern Canada, were up in all regions across the country, with the largest increase in Western Canada. Equipment sales at Chadwick-BaRoss in the Northeastern United States were down by 1% to $33.5 million in 2013.

While Strongco's markets for heavy equipment, excluding cranes, in Canada overall were down slightly in 2013, Strongco's sales unit volumes were up overall by 2% year over year for the nine months, reflecting an increase in market share in all regions of the country with the exception of Ontario. The heavy equipment markets in New England overall were estimated to be up by approximately 12% in 2013 with increased demand for GPE and compact equipment. Strongco's sales unit volumes in New England were up approximately 4%, reflecting a decline in the Company's market share in the region.

In 2010, construction markets in Canada slowly began to recover from the recession, but demand for heavy equipment remained weak until late in the second quarter as many customers remained reluctant or lacked financial resources following the recession to make significant equipment purchases. Strongco's equipment sales in 2010 followed the same recovery trend, with sales increasing each quarter through the year as construction markets and demand for heavy equipment recovered following the recession.

The recovery evident in the latter half of 2010 continued into 2011. Improving economic conditions, continued recovery in construction markets, higher infrastructure spending and increased activity in the oil and gas and mining sectors in Canada all resulted in stronger demand for heavy equipment. On a national basis, the markets for heavy equipment, other than cranes, that Strongco serves in Canada were estimated to be on average 35% higher in 2011. Overall, Strongco outperformed the market in Canada with total unit volume up more than 40%, which resulted in a larger share of the total market in 2011. The crane market in Canada also improved in 2011 as many end users and large crane rental companies that had curtailed purchases during the recession replenished and replaced their aging fleets. Strongco's crane sales in 2011 were more than double the level of 2010.



Construction markets and demand for heavy equipment continued to recover in 2012. However, after significant growth in 2011, the pace of recovery was slower in 2012. Overall the markets for heavy equipment in Canada that Strongco serves were estimated to be up approximately 12% over 2011. In total, Strongco's equipment sales in Canada were up 9%, reflecting a slight decrease in overall market share. Demand for heavy equipment and Strongco's results varied considerably from region to region, with the strongest performance in Alberta and in Strongco's Crane business unit, as explained below.

Average selling prices vary from period to period depending on the sales mix between product categories, model mix within product categories, and features and attachments included in equipment being sold. Overall, Strongco's average selling prices in 2013 were up slightly from a year ago due primarily to a higher proportion of sales of larger, more expensive equipment, especially large cranes and trucks. Price competition remained strong in 2013, especially from certain dealers who were able to bring product with the older technology and less expensive Tier 3 engines into Canada. In addition, many equipment dealers across Canada were carrying high levels of inventories in 2013, which intensified competition and put pressure on selling prices and margins. OEM deliveries continue to improve and while shortages and longer lead times still exist with certain types of equipment, availability of equipment has generally improved from a year ago.

On a regional basis, equipment sales in Eastern Canada (Quebec and Atlantic regions) totalled $77.9 million, which was down $9.1 million, or 10%, from $87.0 million in 2012. The decline was due to lower sales in Quebec, which were down 16%, offset by stronger equipment sales in the Atlantic region. Construction markets and demand for heavy equipment were depressed in Quebec as a result of the ongoing investigation into corruption in the construction industry by the Charbonneau Commission and the suspension of infrastructure spending and increased mining royalties imposed by the new provincial government. In addition, a labour strike by Quebec's construction unions brought all activity to a halt late in the second quarter. Fortunately, the labour disruptions were settled quickly, which allowed construction in the province to resume in the third quarter, although at a much slower pace than in previous years. For the year, the market for heavy equipment in Quebec, other than cranes, was estimated to be down by close to 20% compared to 2012. While much smaller, the market for heavy equipment in the Atlantic region was also down over 12% in 2013 due to the weak economy in the Maritime provinces. However, despite this challenging environment, Strongco unit sales in Quebec were off by only 5% and were flat in the Atlantic region, resulting in an increase in market share. Crane sales were also impacted by the situation in Quebec. After two years of substantial growth as crane rental companies expanded and replenished their fleets, the market for cranes softened in 2013, particularly towards the end of the year. Strongco's sales of cranes in Eastern Canada were down 14% year over year.

Strongco's equipment sales in Central Canada were $103.9 million, which was up $11.7 million, or 13%, from 2012. The increase was due to significant growth in heavy equipment, while crane sales in Ontario declined year over year. While construction markets in Ontario have shown recovery since the recession of 2010, there remains a lingering overall lack of optimism and uncertainty over the economy that has caused some customers to defer spending on heavy equipment and take a wait-and-see approach toward the marketplace in general. The markets for heavy equipment in Ontario where Strongco participates were essentially flat overall compared to 2012, with a slight decline in GPE offset by a slight uptick in compact and road equipment. Despite this challenging environment, Strongco's revenue from sales of heavy equipment, other than cranes, was up 13% over last year due to improved sales performance and increased sales coverage. This resulted in an increase in the Company's market share for GPE in the region. While the market for cranes has been soft in Ontario in 2013, Strongco's crane sales were particularly strong in the third quarter due to the sale of a few large, higher priced hydraulic cranes and all-terrain cranes, as well as conversion of cranes that had been on RPO contracts. This resulted in Strongco's crane sales for the year in Ontario being 10% above 2012.

Equipment sales in Western Canada were $105.9 million, which was up $13.6 million, or 15%, over 2012. This increase was the result of very strong crane sales in the region offset by slightly lower sales of other heavy equipment. Economic conditions in Alberta improved following the recession in 2008/2009, fuelled to a large extent by sustained high oil prices. Activity in the oil sands has been robust throughout this period, which has resulted in strong demand for heavy equipment and cranes in Northern Alberta. After two years of strong economic growth, activity in Alberta eased in 2013 in part due to initial concerns early in the year over the price of Alberta-produced oil, as well as difficult weather and flooding in the province in the first half of the year. This curtailed construction and mining activity and suppressed demand for heavy equipment in the first half of the year. As the price of oil stabilized and construction and mining activity resumed, demand for equipment improved in the latter part of the year. As a consequence, Strongco equipment sales in Alberta were lower in the first half of the year but increased in the latter half. The market for heavy equipment, other than cranes, served by Strongco in Alberta was estimated to be flat overall compared to 2012. Strongco's unit sales for equipment, other than cranes, were up 20% year over year, resulting in an increase in market share. GPE sales, which account for the majority of Strongco's sales in the region, were up 25% year over year. Crane sales in Western Canada have been very strong in 2011 and 2012, driven by sales of truck-mounted cranes to customers that provide service to the energy sector, as well as sales of several large cranes to crane rental companies. Strongco's sales of cranes in 2013 were up a further 55% from 2012 due to continued high demand for truck-mounted and articulating cranes, as well as a higher level of conversions of crane units on RPO contracts. The demand for cranes in Western Canada remains strong.

Strongco's equipment sales in the northeastern United States were $33.5 million, down $0.5 million, or 1%, from $34.0 million in 2012. While there has been modest improvement in the U.S. economy, including a slight uptick in residential construction activity, the markets for heavy equipment in New England remained weak in 2013. Demand for heavy equipment showed some strength in the second half of the year, resulting in total units for the full year being up 12% from 2012. At the same time Strongco's equipment sales in the region were up only 4%, with a decline in GPE resulting in a decline in overall market share.

Equipment Rentals

It is common industry practice for certain customers to rent to meet their heavy equipment needs, rather than commit to a purchase. In some cases, this is in response to the seasonal demands of the customer, as in the case of municipal snow removal contracts, or to meet customers' needs for a specific project. In other cases, certain customers prefer to enter into short-term rental contracts with an option to purchase after a period of time or hours of machine usage. This latter type of contract is referred to as a rental purchase option contract ("RPO"). Under an RPO, a portion of the rental revenue is applied toward the purchase price of the equipment should the customer exercise the option to purchase. This provides the customer flexibility and results in a more affordable purchase price after the rental period. Normally, the significant majority of RPOs are converted to sales within a six-month period. This market practice is a method of building sales revenues and increasing the field population of equipment.

Rental activity tends to be more robust in periods when the economy and construction markets are soft or recovering from recession, as customers generally lack the confidence or financial resources to commit to purchase equipment and prefer instead to rent to meet their equipment needs. Traditionally, when construction markets and demand for heavy equipment are strong, more customers are willing to purchase equipment and rental activity normally subsides. However, as construction markets strengthened following the recession and sales of equipment increased, rental activity, including RPOs, also continued to grow at the same time and remained strong. RPOs have become a more prevalent and accepted way for customers to purchase equipment. Strongco has made a commitment to participate in the RPO market, which has resulted in an increase in the Company's rental activity.

Strongco's rental revenue in 2013 was $31.3 million, which was down 3% from $32.3 million in 2012 due mainly to a decline in rentals in Canada. Rental revenue from Chadwick-BaRoss was $4.8 million, up slightly from $4.7 million in 2012.

On a regional basis in Canada, rental activity was mixed across the country. In Western Canada, rental revenues were essentially flat at $9.5 million. Rental activity was strong in Central Canada, reaching $7.2 million in 2013, up 7% from 2012. In Eastern Canada, which has traditionally not been a large rental market, equipment rentals fell 13% to $9.8 million in 2013 due mainly to the weak market conditions in Quebec and the Atlantic region.

Product Support

Sales of new equipment usually carry the warranty from the manufacturer for a defined term. Product support revenues from the sales of parts and service are therefore not impacted until the warranty period expires. Warranty periods vary from manufacturer to manufacturer and depend on customer purchases of extended warranties. Product support activities (sales of parts and service outside of warranty), therefore, tend to increase at a slower rate and lag equipment sales by three to five years. The increasing equipment population in the field leads to increased product support activities over time.

Strongco's product support revenues in 2013 totalled $133.2 million, which compared to $126.4 million in 2012 and $117.7 million in 2011. Product support revenues were higher in 2013 across all regions of Canada, with the exception of Eastern Canada. As construction markets and other end use markets for heavy equipment in Canada have been improving since the recession of 2008/2009, customer utilization of equipment has increased, which in turn has resulted in a general increase in product support activity. In addition, the first quarter of 2013 saw higher amounts of snow compared to the prior year, particularly in Western Canada, which resulted in higher utilization of equipment for snow removal and contributed to higher levels of parts and service revenue. The new branch in Acheson, Alberta and the upgraded Crane branch in Edmonton, Alberta also contributed to increased Product Support sales in 2013 in Western Canada. Product support activities in Eastern Canada have been impacted by the general reduction in construction activity in Quebec and the construction workers' strikes in June, which resulted in lower utilization of equipment and lower sales of parts and service in 2013. The Company's after-market sales in New England were also higher in 2013, as in the weak market many customers preferred to repair and refurbish existing equipment rather than purchase new models. With lower machine sales, Strongco's operations in New England also put a focus on attracting customers to bring in equipment for repair, which led to higher parts and service revenues.

GROSS MARGIN

($ MILLIONS)	YEAR ENDED DECEMBER 31									
	2013		2012		2011		2013/2012		2012/2011	
GROSS MARGIN		GM%		GM%		GM%	$ CHANGE	% CHG	$ CHANGE	% CHG
Equipment Sales	$ 29.1	9.1%	$ 30.0	9.8%	$ 26.8	9.7%	$ (0.9)	–3%	$ 3.2	12%
Equipment Rentals	5.2	16.6%	4.8	14.9%	5.6	18.9%	0.4	8%	(0.8)	–14%
Product Support	54.6	41.0%	51.7	40.9%	48.2	40.9%	2.9	6%	3.5	7%
Total Gross Margin	$ 88.9	18.3%	$ 86.5	18.6%	$ 80.6	19.0%	$ 2.4	3%	$ 5.9	7%

As a result of higher overall revenues in 2013, gross margins for the year increased to $88.9 million, compared to $86.5 million in 2012 and $80.6 million in 2011. As a percentage of revenues, total gross margin in 2012 was 18.3%, compared to 18.6% in 2012 and 19.0% in 2011. The year over year decrease was primarily the result of a lower gross margin on equipment sales as a result of price competition.

The gross margin percentage on equipment sales in 2013 was 9.1%, compared to 9.8% and 9.7% in 2012 and 2011, respectively. Competitive pricing pressure has continued from dealers in Canada offering less expensive Tier 3 product. In addition, many equipment dealers across Canada are carrying higher machine inventories in 2013, which has created additional pricing pressure and affected selling margins. In New England, margins were tighter given the weak economic environment and low level of equipment demand in the region.

The gross margin on rentals was 16.6%, compared to 14.9% in 2012 and 18.9% in 2011. The gross margin percentage on rentals under RPO contracts reflects the margins on the expected sale of the equipment on exercise of the purchase option, which are lower than margins on straight rentals with no purchase option. As a result, the mix of straight rentals and RPOs will impact the overall margin on rentals. As a proportion of overall rental activity, RPO activity fell in 2013, which contributed to an increase in the overall rental gross margin percentage in 2013.

The gross margin percentage on product support activities was 41.0% in 2013, which was consistent with 2012 and 2011.

ADMINISTRATIVE, DISTRIBUTION AND SELLING EXPENSE

Administrative, distribution and selling expenses in 2013 were $77.7 million, which compared to $70.6 million in 2012 and $64.7 million in 2011. As a percentage of revenue, administrative, distribution and selling expenses were 16.0% in 2013, up from 15.2% in 2012 and 15.3% in 2011. Expenses increased in 2012 and 2013 primarily as a result of investments made to drive future growth in the business. Expenses in 2013 reflect the full year impact of investments made in 2012 in new branches in Edmonton, Baie-Comeau and Trois-Rivières. Expenses in 2013 also include the addition of sales representatives, sales managers, customer service representatives and service managers at Canadian operations to support revenue growth and provide improved customer service. Expenses in 2013 include incremental expenses incurred in advance of opening the new branch in Fort McMurray, Alberta. While the new branch was being constructed, a satellite facility was established in Fort McMurray in advance of opening the new branch, which was completed in early 2014. Training costs, principally related to new technicians added in Alberta, were also higher in 2013. In addition, while the number of technicians increased in 2013, which contributed to higher service revenues, there were shop labour inefficiencies in some branches and reduced recovery of certain technician costs, such as travel and overtime, which added to expense levels in 2013. Annual salary and wage increases and other inflationary cost increases also contributed to the higher expense levels.

Expenses in 2012 were impacted by a combination of annual salary and wage increases, as well as higher incremental operating expenses and one-time relocation and moving costs related to the new branches in Orillia, Ontario, Baie-Comeau and Trois-Rivières, Quebec and Edmonton, Alberta.

OTHER INCOME

Other income and expense is primarily comprised of gains or losses on disposition of fixed assets, foreign exchange gains or losses, service fees received by Strongco as compensation for sales of new equipment by other third parties into the regions where Strongco has distribution rights for that equipment, and commissions received from third party financing companies for customer purchase financing Strongco places with such finance companies.

Other income in 2013 amounted to $3.4 million compared to $1.8 million in 2012 and $1.2 million in 2011. Other income was higher in 2013 primarily due to gains resulting from the sale of certain properties. During the third quarter the Company completed a sale and leaseback of its new Acheson, Alberta branch outside of Edmonton. Proceeds on the sale were $11.4 million, which were used to repay the outstanding construction loan on the branch and other bank debt. The sale resulted in a gain of $1.5 million, which was included in other income. In addition, as construction of the Company's new facility in Saint-Augustin-de-Desmaures, Quebec was completed in the fourth quarter, the existing facility in Ste-Foy, Quebec was sold for proceeds of $2.4 million, which resulted in a gain of $1.5 million.

INTEREST EXPENSE

Strongco's interest expense was $10.8 million in 2013, compared to $8.0 million in 2012 and $5.8 million in 2011. Interest expense was higher in 2013 as a result of higher interest-bearing debt levels primarily related to the financing of the higher levels of equipment inventory carried in 2013, as well as higher bank interest rates in 2013.

Strongco's interest-bearing debt comprises interest-bearing equipment notes, operating lines and various term loans with the Company's banks, and other notes payable. Strongco typically finances equipment inventory under lines of credit available from various non-bank finance companies. Most equipment financing has interest-free periods for up to 12 months from the date of financing, after which the equipment notes become interest-bearing. In addition, bank term loans and other notes payable were used to finance Strongco's acquisition of Chadwick-BaRoss in 2011, as well as construction of new branches and mortgage financing of other owned branch facilities. The rate of interest on the Company's bank operating lines and term loans, interest-bearing equipment notes and other notes payable vary with bank prime rates and Bankers' Acceptances Rates ("BA rates") (see discussion under "Cash Flow, Financial Resources and Liquidity"). Prime rates and BA rates have remained fairly stable throughout 2011, 2012 and 2013.

Average interest-bearing debt levels began to increase in 2012, primarily as a result of a higher level of interest-bearing equipment notes to finance the increase in machine inventory throughout the year. In addition, financing the construction of the Company's new branch in Edmonton, Alberta and capital equipment for the new leased facility in Baie-Comeau, Quebec also added to the debt levels throughout 2012. Consequently, interest-bearing debt levels were higher entering 2013. Interest-bearing debt increased further during 2013, partially to finance the purchase of land and construction of new branches in Fort McMurray, Alberta and Saint-Augustin-de-Desmaures, Quebec but also to finance an increase in equipment inventory during the first half of the year. Equipment inventory and the related equipment finance notes declined as anticipated in the third and fourth quarters. Other capital expenditures increased the level of borrowing on the Company's revolving credit line with its bank in Canada, which also contributed to higher interest in 2013.

Management has put interest rate swaps in place to fix a portion of the variable rate interest on its bank debt and equipment notes. In total, the Company has interest rate swaps in place to fix the interest rate on $25 million of variable rate debt (see discussion under the heading "Interest Rate Swaps" below).

EARNINGS BEFORE INCOME TAXES

Strongco's earnings before income taxes in 2013 were $3.7 million, which compared to earnings before income taxes of $9.7 million in 2012. Higher revenues and gross margins were more than offset by increased operating expenses and higher interest costs, which resulted in a decrease in earnings before taxes.

PROVISION FOR INCOME TAX

The provision for income taxes in 2013 was $0.7 million, which represented $0.6 million in Canada and $0.1 million in the United States. By comparison, the provision for income taxes in 2012 was $2.7 million, which represented $2.3 million in Canada and $0.4 million in the United States.

NET INCOME

Strongco's net income in 2013 was $3.0 million ($0.23 per share), down from $7.0 million ($0.53 per share) in 2012.

EBITDA

EBITDA (see note 1 below) in 2013 was $45.0 million (9.3% of revenue), which compares to $48.3 million (10.4% of revenue) in 2012 and $43.1 million (10.2% of revenue) in 2011. EBITDA was calculated as follows:

($ MILLIONS)	YEAR ENDED DECEMBER 31			CHANGE	
EBITDA	2013	2012 (note 2)	2011	2013/2012	2012/2011
Net earnings	$ 3.0	$ 7.0	$ 9.9	$ (4.0)	$ (2.9)
Add Back:					
Interest	10.8	8.0	5.8	2.8	2.2
Income taxes	0.7	2.7	1.2	(2.0)	1.5
Amortization of capital assets	5.1	4.2	3.0	0.9	1.2
Amortization of equipment inventory on rent	21.7	23.2	20.8	(1.5)	2.4
Amortization of rental fleet	3.7	3.2	2.4	0.5	0.8
EBITDA (note 1)	$ 45.0	$ 48.3	$ 43.1	$ (3.3)	$ 5.2

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under International Financial Reporting Standards ("IFRS") and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.

Note 2 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

CASH FLOW, FINANCIAL RESOURCES AND LIQUIDITY

Cash Flow Provided By (Used In) Operating Activities:

In 2013, Strongco provided $43.3 million of cash from operating activities before changes in working capital. By comparison, in 2012, Strongco provided $49.4 million of cash from operating activities before changes in working capital.

The components of the cash provided by operating activities were as follows:

($ MILLIONS) TWELVE MONTHS ENDED DECEMBER 31	2013	2012
		(note 1)
Net earnings	$ 3.0	$ 7.0
Non-cash items:		
Depreciation – equipment inventory on rent	21.7	23.2
Depreciation – capital assets	5.1	4.2
Depreciation – rental fleet	3.7	3.2
Gain on disposal of property and equipment	(3.1)	(0.1)
(Gain) Loss on sale of rental equipment	0.6	(0.8)
Share-based payment expense	0.2	0.2
Interest expense	10.8	8.0
Income tax expense	0.7	2.7
Employee future benefit expense	0.6	1.8
	43.3	49.4
Changes in non-cash working capital balances	(19.7)	(31.5)
Employee future benefit funding	(2.1)	(2.5)
Interest paid	(11.3)	(7.8)
Income taxes paid	(3.6)	(0.1)
Cash provided by operating activities	$ 6.6	$ 7.5

Note 1 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

Non-cash items include amortization of equipment inventory on rent of $21.7 million, which compares to $23.2 million in 2012.

During 2013, changes in non-cash working capital used $19.7 million of cash. By comparison, during 2012, net working capital changes used $31.5 million of cash. Components of cash flow from the net change in non-cash working capital for 2013 and 2012 were as follows:

($ MILLIONS) (INCREASE) / DECREASE TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Trade and other receivables	$ (4.0)	$ (1.8)
Inventories	11.7	(88.0)
Prepaids	–	(0.5)
Other assets	0.1	(0.1)
	$ 7.8	$ (90.4)
Trade and other payables	(10.4)	9.6
Deferred revenue and customer deposits	0.1	0.3
Equipment notes payable	(17.2)	49.0
	$ (27.5)	$ 58.9
Net increase in non-cash working capital	$ (19.7)	$ (31.5)

Trade and other receivables at December 31, 2013 were $48.8 million, which was up from $44.4 million at December 31, 2012 primarily due to the timing of sales in the latter part of the year. In addition, collections were a little slower towards the end of 2013 compared to 2012. The average age of receivables at December 31, 2013 was 39 days compared to 37 days at the end of 2012.

It was management's stated goal for 2013 to reduce equipment inventories and the associated equipment financing. While equipment inventories and floor plan debt rose during the first half of 2013 in anticipation of strong sales in the upcoming construction season, management was successful in reducing inventories in the latter half of the year. As a result, total equipment inventory at December 31, 2013 was $212.0 million, down $32.4 million from $244.4 million at the end of 2012. While this was a substantial reduction, management remains committed to further reductions in inventory through improved inventory management and a focus on selling older units.

A breakdown of equipment inventory at December 31, 2013 compared to prior quarters is as follows:

($ MILLIONS)	DEC 31, 2013	SEPT 30, 2013	JUNE 30, 2013	MARCH 31, 2013	DEC 31, 2012
Equipment in-stock	$ 156.8	$ 186.4	$ 196.6	$ 210.2	$ 176.0
Equipment on RPO	38.9	45.8	40.1	42.0	48.0
Equipment on a short-term rental contract	16.3	21.4	24.6	12.6	20.4
Equipment Inventory	$ 212.0	$ 253.6	$ 261.3	$ 264.8	$ 244.4

Equipment inventory in-stock rose as expected in the first half of the year as inventory was purchased for the upcoming construction season. Equipment in-stock began to decline in June and declined by a further $39.8 million in the third and fourth quarters to $156.8 million at December 31, 2013.

Given the continued robust level of RPO activity, the amount of equipment committed to RPOs remained high throughout the first nine months of 2013 and then declined in the last quarter as customers exercised purchase options.

In addition to inventory on RPO contracts, the Company also had $16.3 million of equipment on short-term rental contracts at December 31, 2013, which was down from $20.4 million a year ago.

Trade and other payables at December 31, 2013 were $32.7 million, which was down from $47.3 million at December 31, 2012, primarily as a result of the timing in receipt of parts and equipment inventory and timing in payment of amounts owing to suppliers. Trade and other payables were particularly high at December 31, 2012 as parts inventory received near the end of the year was unpaid at December 31, 2012. Similarly, equipment inventory received near the end of 2012 had not yet been financed on the Company's floor plan lines and was accrued in other payables at December 31, 2012.

Equipment notes followed the same pattern as the equipment inventory it was financing. Equipment notes opened the year at $209.1 million and, after rising in the first half of the year, declined to $193.0 million at December 31, 2013.

Cash Used In Investing Activities:

In 2013, net cash used in investing activities amounted to $24.0 million compared to $8.1 million used in 2012.

The Company purchased rental fleet assets of $17.5 million during the year and sold rental fleet assets for proceeds of $13.1 million.

Capital expenditures totalled $33.6 million in the year, including $26.1 million for the purchase of land and construction of the new branches in Saint-Augustin-de-Desmaures, Quebec and Fort McMurray, Alberta. The new Saint-Augustin branch was completed and opened for business in December 2013 and the Fort McMurray branch was completed at the end of February 2014. Other capital expenditures totalled $4.4 million related to implementation of the new Dealer Management System and $3.1 million for branch upgrades and miscellaneous shop equipment purchases.

During the year, the Company generated proceeds from the sale of assets of $14.0 million. Major asset sales included the sale and leaseback of its new Acheson, Alberta branch outside of Edmonton for proceeds of $11.4 million. The proceeds were used to repay the outstanding construction term loan and other bank debt. In addition, as the Company completed the construction of a new branch in Saint-Augustin-de-Desmaures, Quebec, the Company sold its existing branch in Ste-Foy, Quebec for proceeds of $2.4 million, which were used to reduce bank debt.

Investing activities in 2012 amounted to $8.1 million, including capital expenditures of $5.9 million primarily for the ongoing implementation of the new Dealer Management System, facilities upgrades and miscellaneous shop equipment purchases. In addition, net additions of rental fleet equipment in 2012 amounted to $2.3 million.

The components of the cash used in investing activities were as follows:

($ MILLIONS) TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Purchase of rental fleet assets	$ (17.5)	$ (11.6)
Proceeds from sale of rental fleet assets	13.1	9.3
Purchase of capital assets	(33.6)	(5.9)
Proceeds from sale of property and equipment	14.0	0.1
Cash used in investing activities	$ (24.0)	$ (8.1)

Cash Provided By Financing Activities:

For the twelve months ended December 31, 2013, $16.0 million of cash was provided by financing activities, compared to $2.0 million in the prior year. This included $16.8 million in cash provided by construction loans related to the Fort McMurray, Alberta and Saint-Augustin-de-Desmaures, Quebec branches. During the period, $4.9 million of cash was used to pay down the Canadian term loan. An increase in the bank operating line provided $10.1 million of cash. $2.6 million of cash was used to pay down the long-term equipment notes to finance an increase in rental fleet. Repayments of finance leases amounted to $3.3 million in the year.

The components of cash provided by financing activities are summarized as follows:

($ MILLIONS) TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Repayment of Canadian Term Loan	$ (4.9)	$ (1.9)
Repayment of acquisition promissory notes	(0.5)	(0.8)
Construction loan – new Edmonton branch	–	2.2
Construction loan – new Fort McMurray branch	11.5	–
Construction loan – new Saint-Augustin-de-Desmaures branch	5.3	–
Increase (decrease) in long-term equipment notes	(2.6)	0.6
Increase (decrease) in bank indebtedness	10.1	4.4
Repayment of finance lease obligations	(3.3)	(2.5)
Issuance of share capital	0.4	–
Cash provided by financing activities	$ 16.0	$ 2.0

Bank Credit Facilities

The Company has credit facilities with banks in Canada and the United States which provide various operating lines and term loan facilities as described below.

Operating Lines

The Canadian bank credit facility is a three-year committed facility expiring in September 2015. In the first quarter of 2013, the operating line of the Canadian bank facility was increased to $25 million from $20 million and in July 2013 was further increased to $30 million. The U.S. bank credit facility provides an operating line of credit of US$3.0 million. The U.S. bank operating line is renewable annually in June of each year. The renewal in 2013 was extended to December 31, 2013 and the next annual renewal is in June 2015.

Borrowings under the operating lines of credit under both the Canadian and U.S. credit facilities are limited by standard borrowing base calculations based on accounts receivable and inventory, which are typical of such bank credit facilities. As collateral, the Company has provided a $50 million debenture and a security interest in accounts receivable, inventories (subordinated to the collateral provided to the equipment inventory lenders), capital assets (subordinated to collateral provided to lessors), real estate and intangible and other assets. The Canadian bank operating line bears interest at rates that vary with bank prime rates or Bankers' Acceptances Rates ("BA rates"). Interest rates under the Canadian bank facility were amended in June 2013 and range between bank prime rate plus 2.00% and bank prime rate plus 4.00%, and between the one-month Canadian BA rates plus 3.00% and BA rates plus 5.00%. The bank operating line in the United States bears interest at LIBOR plus 2.75%. Under its bank credit facilities, the Company is able to issue letters of credit up to a maximum of $5 million. Outstanding letters of credit reduce the Company's availability under its operating lines of credit. For certain customers, Strongco issues letters of credit as a guarantee of Strongco's performance on the sale of equipment to the customer. At December 31, 2013, there were $0.01 million worth of outstanding letters of credit.

In addition to its operating lines of credit, Strongco has a line of approximately US$18.4 million for foreign exchange forward contracts as part of its bank credit facilities ("FX Line") available to hedge foreign currency exposure. Under this FX Line, the Company can purchase foreign exchange forward contracts up to a maximum of US$18.4 million. As at December 31, 2013, the Company had outstanding foreign exchange forward contracts under this facility totalling US$2.8 million at an average exchange rate of $1.0436 Canadian for each US$1.00 with settlement dates between January 1, 2014 and July 31, 2014.

Term Loans

The Company's bank credit facilities in Canada include a term note secured by real estate and cross-collateralized with the Company's revolving line of credit in Canada. The term note matures in June 2017 and bears interest at the bank's one-month Bankers' Acceptance (BA) rate plus 4%. The monthly principal payment of $0.1 million commenced in September 2013 for a 46-month term. The Company has interest rate swap agreements in place that have converted the variable rate on this term note to an effective fixed rate of approximately 6.2%. In August 2013, the Company completed the sale and leaseback of its Acheson, Alberta branch outside of Edmonton. Proceeds of $11.4 million were received on the sale, $2.8 million of which was used to repay the Canadian term note and the balance was used to reduce the Company's Canadian operating line. As at December 31, 2013, there was $5.0 million owing on the Canadian term note.

In addition, Strongco has a construction loan facility with its bank to finance the construction of a new branch in Fort McMurray, Alberta. Under this construction loan, the Company is able to borrow 70% of the cost of the land and building construction costs to a maximum limit of $13.9 million. Interest on this term loan is at the bank's prime lending rate plus 3.0%. Construction of the new branch was completed in March 2014 and the construction loan is being converted to a demand, non-revolving term loan for a term of 15 years at the same rate of interest. As at December 31, 2013, $11.5 million was borrowed on the loan.

In addition, Strongco had a construction loan facility with its bank to finance the construction of a new branch in Saint-Augustin-de-Desmaures, Quebec to replace its existing facility in the Quebec City area. Under this construction loan, the Company borrowed $5.3 million, being 70% of the cost of the land and building construction. Interest on this term loan was at the bank's prime lending rate plus 3.0%. Construction of the facility was completed in December 2013 and in March 2014 the construction loan was converted to a term loan in the amount of $6.0 million for a term of 15 years at the same rate of interest.

The Company's U.S. bank credit facilities also include term loans secured by real estate in the United States. These loans require monthly principal payments of US$13,000 plus accrued interest. During 2012, the Company renegotiated these term loans to reduce the interest to LIBOR plus 2.75% and to extend the term of the loans to May 2017, at which point a balloon payment for the balance of the loans is due. The Company has interest rate swap agreements in place that have converted the variable rate on the term loans to a fixed rate. In September 2013, the swap agreements were also renegotiated to reduce the effective fixed swap rate to 4.14%. The new swap agreements are set to expire in May 2017, coincident with the term loan. It is Management's intention to renew the term loans and interest rate swap agreement prior to their expiry. At December 31, 2013, the outstanding balance on these term loans was US$3.5 million.

Financial Covenants

The bank credit facilities in Canada contain financial covenants typical of such credit facilities that require the Company to maintain certain financial ratios and meet certain financial thresholds.

A summary of the financial covenants under the bank credit facilities at December 31, 2013 was as follows:

- Minimum ratio of total current assets to current liabilities ("Current Ratio covenant") of 1.10:1,
- Minimum tangible net worth ("TNW covenant") of $54 million,
- Maximum ratio of debt to tangible net worth ("Debt to TNW Ratio covenant") of 4.50:1, and
- Minimum ratio of EBITDA minus cash taxes paid and capital expenditures to total interest ("Debt Service Coverage Ratio covenant") of 1.30:1.

In addition to these financial covenants, the Company's bank credit facility requires the Company to remain in compliance with the financial covenants under all of its other lending agreements ("cross default provisions"). The Company was in compliance with all financial covenants under its bank credit facilities at December 31, 2013.

Equipment Notes

In addition to its bank credit facilities, the Company has lines of credit available totalling approximately $300 million from various non-bank equipment lenders in Canada and the United States that are used to finance equipment inventory and rental fleet. At December 31, 2013, there was approximately $209 million borrowed on these equipment finance lines.

Typically, these equipment notes are interest-free for periods up to 12 months from the date of financing, after which they bear interest in Canada at rates ranging from 4.25% over the one-month Bankers' Acceptance ("BA") rate, from 4.50% to 5.25% over the three-month BA rate, from 2.00% to 4.25% over the prime rate of a Canadian chartered bank, from 2.65% to 4.25% over the one-month LIBOR rate, prime plus 3.00%, and from 3.50% to 5.50% over the 90-day LIBOR rate in the United States. As collateral for these equipment notes, the Company has provided liens on the specific inventory financed and any related accounts receivable. In the normal course of business, these liens cover substantially all of the inventories. Monthly principal repayments equal to 3.00% of the original principal balance of the note commence 12 months from the date of financing and the remaining balance is due in full at the earlier of 24 months after financing or when the financed equipment is sold. While financed equipment is out on rent, monthly curtailments are required equal to the greater of 70% of the rental revenue and 2.5% of the original value of the note. Any remaining balance after 24 months, which is due in full, is normally refinanced with the lender over an additional period of up to 24 months. All of the Company's equipment notes facilities are renewable annually.

As outlined above, the interest-bearing equipment notes in Canada bear interest at floating BA rates plus a fixed component or premium over BA rates. Strongco put interest rate swaps in place that have effectively fixed the variable rate of interest on $25.0 million of its interest-bearing equipment notes at approximately 4.6% for five years to September 2016. (See discussion under "Interest Rate Swaps" below.)

Certain of the Company's equipment finance credit agreements contain restrictive financial covenants, including requiring the Company to remain in compliance with the financial covenants under all of its other lending agreements ("cross default provisions"). The Company was in compliance with financial covenants under its equipment finance facilities at December 31, 2013.

Interest Rate Swaps

Strongco has a Swap Facility in Canada with its bank that allows the Company to swap the floating interest rate component ("BA rate") on up to $100 million of its floating interest rate debt to a five-year fixed swap rate of interest. On September 8, 2011, the Company entered into an interest rate swap agreement under this facility to fix the floating BA rate on $15.0 million of interest-bearing debt at a fixed interest rate equal to 1.615% for a period of five years to September 8, 2016. On June 8, 2012, the Company entered into an additional interest rate swap agreement under this facility to fix the floating BA rate on an additional $10.0 million of interest-bearing debt at a fixed interest rate equal to 1.58% for a period of five years to June 8, 2017. The Company has put these swaps in place to effectively fix the interest rate on $25.0 million of its interest-bearing equipment notes at approximately 4.61%. In addition, in September 2012, the Company entered into interest rate swap agreements that converted the variable interest rate components on the Canadian Term Loan to a fixed rate. The effective fixed rate of interest on these loans is 6.2%.

The Company also has interest rate swap agreements in place in the United States that have converted the variable rate on its U.S. term loans to a fixed rate of 4.13%. The term loan and swap agreements expire in May 2017, at which point a balloon payment for the balance of the loans is due. It is management's intention to renew the term loans and interest rate swap agreement prior to their expiry.

Summary of Outstanding Debt

The balance outstanding under Strongco's debt facilities at December 31, 2013 and 2012 consisted of the following:

DEBT FACILITIES ($ MILLIONS) AS AT DECEMBER 31	2013	2012
Bank indebtedness (including outstanding cheques)	$ 25.4	$ 15.3
Equipment notes payable – non interest bearing	29.1	37.6
Equipment notes payable – interest bearing	163.9	171.5
Rental fleet equipment notes payable	15.8	8.5
Vendor take back note payable – acquisition of Chadwick-BaRoss	–	0.5
Construction loan – Fort McMurray, Alberta	11.5	–
Construction loan – Saint-Augustin-de-Desmaures, Quebec	5.3	–
Canadian Term Loan	5.0	9.7
US Term Loans	3.5	3.5
Other notes payable	0.8	0.8
	$ 260.3	$ 247.4

Total borrowing under the Company's debt facilities was $260.3 million at December 31, 2013 compared to $246.6 million a year ago. The increase of $13.7 million was primarily due to the construction of the new branches in Fort McMurray, Alberta and Saint-Augustin-de-Desmaures, Quebec and the investment in the new Dealer Management System.

As discussed under the changes in non-cash working capital above, Management remains focused on reducing equipment inventories and the corresponding equipment note financing, and is confident that, with the ongoing level of demand for heavy equipment in its markets and the actions taken and being taken to better manage ordering of new equipment and reduce the amount of incoming inventory, a substantial reduction in inventory and floor plan debt was achieved by the end of 2013.

As at December 31, 2013, there was $7.8 million of unused credit available under the Company's bank credit lines. While availability under the bank lines fluctuates daily depending on the amount of cash received and cheques and other disbursements clearing the bank, availability normally ranges between $5 million and $15 million. The Company also had approximately $108 million available under its equipment finance facilities at December 31, 2013.

With the level of funds available under the Company's bank credit lines, the current availability under the equipment finance facilities and anticipated improvement in cash flows from operations, Management believes the Company will have adequate financial resources to fund its operations and make the necessary investment in equipment inventory and fixed assets to support its operations in the future.

Financial Results – Fourth Quarter

CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31

	THREE MONTHS ENDED DECEMBER 31		2013/2012	
($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	2013	2012	$ CHANGE	% CHANGE
		(note 2)		
Revenues	$ 116,363	$ 115,915	$ 448	0%
Cost of sales	94,783	95,216	(433)	0%
Gross Margin	21,580	20,699	881	4%
Administration, distribution and selling expenses	20,547	17,704	2,843	16%
Other income	(1,667)	(177)	(1,490)	842%
Operating income	2,700	3,172	(472)	–15%
Interest expense	2,929	2,325	604	26%
Earnings (loss) before income taxes	(229)	847	(1,076)	–127%
Provision for income taxes	(506)	230	(736)	–320%
Net income	$ 277	$ 617	$ (340)	–55%
Basic and diluted earnings per share	$ 0.02	$ 0.04	$ (0.02)	–56%
Weighted average number of shares				
– Basic	13,164,900	13,128,719		
– Diluted	13,184,278	13,184,475		
Key financial measures:				
Gross margin as a percentage of revenues	18.5%	17.9%		
Administration, distribution and selling expenses as percentage of revenues	17.7%	15.3%		
Operating income as a percentage of revenues	2.3%	2.7%		
EBITDA (note 1)	$ 11,033	$ 12,891	$ (1,858)	–14%

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under IFRS and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.
Note 2 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

REVENUES

Strongco's revenues for the quarter ended December 31, 2013 were $116.4 million, which was up $0.5 million from $115.9 million in the fourth quarter 2012. Overall, equipment sales were up $0.6 million year over year and product support activity was up $1.5 million year over year, but rentals were down in the fourth quarter compared to the prior year. Revenues in Canada decreased by $2.2 million, or 2%, in the quarter, while revenues at Chadwick-BaRoss were up $2.7 million. By region, revenues in Western Canada were up 40% over the fourth quarter of 2012, led by strong equipment sales and product support activity. Revenues were down year over year by 22% in Eastern Canada and 16% in Central Canada.

A breakdown of revenue for the three months ended December 31, 2013 and 2012 was as follows:

($ MILLIONS)			2013/12
THREE MONTHS ENDED DECEMBER 31	2013	2012	% CHG
Eastern Canada (Atlantic and Quebec)			
Equipment Sales	$ 15.4	$ 21.7	–29%
Equipment Rentals	2.9	3.2	–9%
Product Support	9.5	10.5	–10%
Total Eastern Canada	$ 27.8	$ 35.4	–21%
Central Canada (Ontario)			
Equipment Sales	$ 18.8	$ 24.6	–24%
Equipment Rentals	1.7	2.2	–23%
Product Support	9.5	9.0	6%
Total Central Canada	$ 30.0	$ 35.8	–16%
Western Canada (Manitoba to British Columbia)			
Equipment Sales	$ 28.6	$ 18.0	59%
Equipment Rentals	2.7	3.7	–27%
Product Support	8.4	6.8	24%
Total Western Canada	$ 39.7	$ 28.5	39%
Northeastern United States			
Equipment Sales	$ 12.8	$ 10.7	20%
Equipment Rentals	1.5	1.3	15%
Product Support	4.6	4.2	10%
Total Northeastern United States	$ 18.9	$ 16.2	17%
Total Equipment Distribution			
Equipment Sales	$ 75.6	$ 75.0	1%
Equipment Rentals	8.8	10.4	–15%
Product Support	32.0	30.5	5%
Total Equipment Distribution	$ 116.4	$ 115.9	0%

Equipment Sales

Strongco's equipment sales in the fourth quarter of 2013 totalled $75.6 million, up $0.6 million, or 1%, from $75.0 million in the fourth quarter of 2012. Equipment sales at Chadwick-BaRoss were up $2.1 million while equipment sales in Canada were down $1.5 million overall, but varied by region.

Overall the markets for heavy equipment in Canada were down slightly year over year in the fourth quarter. Demand was strongest in Alberta but down in the Central and Eastern regions of the country. Demand for heavy equipment was slightly higher in New England but still below pre-recession levels.

On a regional basis, Strongco's equipment sales in Eastern Canada (Quebec and Atlantic regions) totalled $15.4 million, down $6.3 million, or 29%, from $21.7 million in the fourth quarter of 2012. Sales of cranes, as well as other heavy equipment, in Eastern Canada were down compared to the fourth quarter of 2012. The decline was due mainly to the weak construction markets in Quebec as a result of the ongoing investigation into corruption in the construction industry by the Charbonneau Commission and the suspension of infrastructure spending and increased mining royalties imposed by the new provincial government. In addition, several RPO contracts where it was anticipated the option to purchase would be exercised did not convert in the quarter and were deferred to 2014. The markets for heavy equipment, other than cranes, in which Strongco participates in Eastern Canada were estimated to be flat year over year in the fourth quarter compared to the same period in 2012. Strongco's unit volumes were down in the quarter, resulting in a small loss of market share, but for the full year, Strongco's market share improved in both the Quebec and Atlantic regions. After two years of robust activity, demand for cranes has started to show signs of softening in Quebec. Strongco's crane sales in the quarter could not match the very high level of sales in the fourth quarter of 2012, where several large cranes were sold to crane rental customers in Quebec and conversion to sale of a few large cranes that had been on RPO contracts occurred.

Strongco's equipment sales in Central Canada were $18.8 million, down $5.8 million, or 24%, from $24.6 million for the same period in 2012. Sales of cranes, as well as other heavy equipment, in Central Canada were down compared to the fourth quarter of 2012. There remains an overall lack of optimism and uncertainty in construction markets in Ontario, which is continuing to cause many customers to curtail spending on heavy equipment and take a wait-and-see approach toward the marketplace in general. The market for GPE was down by an estimated 14% year over year in the fourth quarter. Strongco's GPE unit volumes in Ontario were down in the quarter, but to a lesser degree than the market, resulting in a gain in market share. In this uncertain environment, several customers elected to defer or cancel their option to purchase equipment on rent under RPO contracts in the fourth quarter. In this challenging environment, many dealers are carrying high levels of machine inventory, resulting in aggressive price competition, especially from dealers carrying high levels of product with the old Tier 3 engines.

Equipment sales in Western Canada during the fourth quarter of 2013 were $28.6 million, up $10.6 million, or 59%, from $18.0 million in the fourth quarter of 2012. The large increase was mainly due to very strong sales of cranes, but sales of other heavy equipment were also up year over year by 12%. Economic conditions in Alberta remained robust in the fourth quarter of 2013 and with that demand for heavy equipment in the region continued to be strong. Total units of heavy equipment, other than cranes, sold in the market were estimated to be up year over year by 8% in the quarter, led by strong demand for larger equipment. Strongco's unit sales in Western Canada doubled from a year ago due to strong sales of articulated trucks, resulting in a gain in market share. Demand for cranes in Western Canada, particularly in Northern Alberta for use in the energy sector, remained strong in the fourth quarter. Strongco's crane sales in Western Canada in the fourth quarter of 2013 were more than double the level in the same quarter of the previous year due to a high level of conversions of units on RPO contracts and strong sales of truck-mounted cranes.

Strongco's equipment sales in the Northeastern United States were $12.8 million, up from $10.7 million in the fourth quarter of 2012. While the traditional heavy equipment markets for residential construction, road construction and other infrastructure improvements in the region have been slow to recover following the recession, the market overall experienced an uptick in the fourth quarter of 2013. Overall the market was up 14% with most of the improvement in GPE. At the same time, Strongco's unit volumes were up more than 20%, resulting in a gain in market share.

Equipment Rentals

Strongco's rental revenue in the fourth quarter of 2013 was $8.8 million, which was down from $10.4 million in the fourth quarter of 2012. Rental revenue in Canada was down overall by $1.8 million across all regions and was up slightly in the Northeastern United States. RPO activity in all regions of Canada remained high throughout 2013 but RPO conversions to sale in the fourth quarter reduced the amount of rental revenue in the quarter. By comparison, in the fourth quarter of 2012 certain RPO contracts scheduled for conversion in the quarter were extended into 2013.

Product Support

Strongco's product support revenues in the fourth quarter of 2013 totalled $32.0 million, compared to $30.5 million in the fourth quarter of 2012. With the exception of Eastern Canada, product support revenues were strong in all regions of Canada. Parts and service revenues in Western Canada improved to $8.4 million, up 24% from the fourth quarter of 2012, as construction activity in the province and utilization of equipment remained strong. In Ontario, customers have remained reluctant to purchase new equipment and continued to service their existing equipment. Product support revenues in Ontario were $9.5 million in the fourth quarter of 2012, up $0.5 million, or 6%, from $9.0 million a year earlier. In Eastern Canada product support activities were sluggish due to the weak markets in Quebec and the Atlantic region. Parts and service revenues in Eastern Canada were $9.5 million, down from $10.5 million in the fourth quarter of last year.

GROSS MARGIN

($ MILLIONS) THREE MONTHS ENDED DECEMBER 31	2013		2012		CHANGE 2013/2012	
GROSS MARGIN		GM%		GM%		% VAR
Equipment Sales	$ 6.7	8.9%	$ 6.4	8.5%	$ 0.3	5%
Equipment Rentals	1.5	17.0%	1.4	13.5%	0.1	7%
Product Support	13.4	41.9%	12.9	42.3%	0.5	4%
Total Gross Margin	$ 21.6	18.6%	$ 20.7	17.9%	$ 0.9	4%

As a result of the increase in revenue, Strongco's gross margin in the fourth quarter of 2013 increased by $0.9 million to $21.6 million from $20.7 million in the fourth quarter of 2012. As a percentage of revenue, total gross margin in the fourth quarter of 2013 was 18.6%, up from 17.9% in 2012, due in part to a higher proportion of product support revenues, which carry a higher gross margin percentage, as well as higher margin percentages on rentals and equipment sales.

The gross margin on equipment sales was $6.7 million, compared to $6.4 million in the prior year, and as a percentage of sales was 8.9%, up from 8.5% in the fourth quarter of 2012. The increase in gross margin was due to product mix, with a higher proportion of sales of larger equipment and cranes, particularly in Western Canada, which command higher margins.

The gross margin on rentals in the fourth quarter was $1.5 million, up from $1.4 million a year ago, and as a percentage of revenue was 17.0% compared to 13.5% in the same period in 2012. The higher gross margin percentage was due primarily to a lower proportion of rentals under RPO contracts in 2013, which are traditionally at margins lower than rentals with no purchase option.

The gross margin on product support activities improved to $13.4 million from $12.9 million in the fourth quarter of 2012, and as a percentage of revenue was 41.9%, down slightly from 42.3% in the fourth quarter of 2012.

ADMINISTRATIVE, DISTRIBUTION AND SELLING EXPENSE

Administrative, distribution and selling expenses in the fourth quarter of 2013 were $20.5 million, or 17.7% of revenue, compared to $17.7 million, or 15.3% of revenue, in the fourth quarter of 2012. Expenses increased in 2013 primarily as a result of investment made to drive future growth in the business. Expenses in 2013 include the addition of sales representatives, sales managers, customer service representatives and service managers at Canadian operations to support revenue growth and provide improved customer service. Expenses in 2013 include incremental expenses incurred in advance of opening the new branch in Fort McMurray, Alberta. While the new branch was being constructed, a satellite facility was established in Fort McMurray in advance of opening the new branch, which was completed in early 2014. Training costs, principally related to new technicians added in Alberta, were also higher in 2013. In addition, while the number of technicians increased throughout 2013, which contributed to higher service revenues, there were shop labour inefficiencies in some branches and reduced recovery of certain technician costs, such as travel and overtime, which added to expense levels in 2013. Annual salary and wage increases and other inflationary cost increases also contributed to the higher expense levels.

OTHER INCOME

Other income and expense is primarily comprised of gains or losses on disposition of fixed assets, foreign exchange gains or losses, service fees received by Strongco as compensation for sales of new equipment by other third parties into the regions where Strongco has distribution rights for that equipment, and commissions received from third party financing companies for customer purchase financing Strongco places with such finance companies.

Other income in the fourth quarter of 2013 was $1.7 million, compared to $0.2 million in the fourth quarter of 2012. The majority of the other income in the fourth quarter of 2013 related to the $1.5 million gain on the sale of the Ste-Foy, Quebec branch, which was replaced by the new branch in Saint-Augustin-de-Desmaures, Quebec.

INTEREST EXPENSE

Strongco's interest expense was $2.9 million in the fourth quarter of 2013, compared to $2.3 million in the fourth quarter of 2012. The increase was due to a higher average balance of interest-bearing debt in the fourth quarter of 2013 compared to the fourth quarter of 2012. Most of the increase related to higher interest-bearing floor plan debt levels, as well as an increased level of term notes related to the new branches.

PROVISION FOR INCOME TAX

The recovery of income taxes in the fourth quarter of 2013 was $0.5 million, which represented the tax provision in Canada. By comparison, the provision for income taxes in the fourth quarter of 2012 was $0.2 million, which represented the tax provision in Canada.

NET INCOME (LOSS)

Strongco's net loss in the fourth quarter of 2013 was $0.3 million ($0.02 per share), which compared to net income of $0.6 million ($0.04 per share) in the same quarter of the prior year.

EBITDA

EBITDA in the fourth quarter of 2013 was $11.0 million (9.5% of revenues), compared to $12.9 million (11.1% of revenue) in the fourth quarter of 2012. EBITDA was calculated as follows:

EBITDA ($ MILLIONS) **THREE MONTHS ENDED DECEMBER 31**	**2013**	**2012**	**CHANGE 2013/2012**
		(note 2)	
Net earnings	$ 0.3	$ 0.6	$ (0.3)
Add Back:			
Interest	2.9	2.3	0.6
Income taxes	(0.5)	0.1	(0.6)
Amortization of capital assets	1.4	1.2	0.2
Amortization of equipment inventory on rent	5.4	7.8	(2.4)
Amortization of rental fleet	1.5	0.9	0.6
EBITDA (note 1)	$ 11.0	$ 12.9	$ (1.9)

Note 1 – "EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under International Financial Reporting Standards ("IFRS") and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.

Note 2 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

CASH FLOW, FINANCIAL RESOURCES AND LIQUIDITY

Cash Flow Provided By (Used In) Operating Activities:

During the fourth quarter of 2013, Strongco provided $10.9 million of cash from operating activities before changes in working capital. $0.2 million of cash was used to increase net working capital, $0.6 million of cash was used to fund future employee benefits, $3.3 million to pay interest and $0.5 million to pay taxes, resulting in a net source of cash from operations in the quarter of $6.3 million. By comparison, in the fourth quarter of 2012, Strongco provided $12.9 million of cash from operating activities before changes in working capital. However, $9.6 million of cash was used to increase net working capital, $0.6 million to fund future employee benefits, $2.3 million to pay interest and $0.1 million in recovered taxes, resulting in a net source of cash from operations in the quarter of $0.5 million.

The components of the cash provided by operating activities were as follows:

($ MILLIONS) THREE MONTHS ENDED DECEMBER 31	2013	2012 (note 1)
Net earnings	$ 0.3	$ 0.6
Non-cash items:		
Depreciation – equipment inventory on rent	5.5	7.7
Depreciation – capital assets	1.4	1.2
Depreciation – rental fleet	1.6	0.9
Gain on sale of property and equipment	(1.6)	(0.1)
Gain (loss) on sale of rental equipment	1.7	(0.3)
Share-based payment expense	0.1	0.1
Interest expense	2.9	2.3
Income tax expense	(0.5)	0.2
Employee future benefit expense	(0.5)	0.3
	$ 10.9	$ 12.9
Changes in non-cash working capital balances	(0.2)	(9.6)
Employee future benefit funding	(0.6)	(0.6)
Interest paid	(3.3)	(2.3)
Income taxes paid	(0.5)	0.1
Cash provided by operating activities	$ 6.3	$ 0.5

Note 1 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

Non-cash items in the quarter include amortization of equipment inventory on rent of $5.5 million, which compared to $7.7 million in the fourth quarter of 2012. Lower volumes of equipment rentals in the fourth quarter of 2013 resulted in the lower amortization of equipment inventory on rent.

During the fourth quarter of 2013, non-cash working capital increased by $0.2 million due primarily to decreases in equipment notes payable and trade and other payables, partially offset by decreases in inventories, as shown in the table below. By comparison, during the fourth quarter of 2012, net working capital increased by $9.6 million due to decreases in equipment notes, which were partially offset by decreases in trade and other receivables and inventories.

Components of cash flow from the net change in non-cash working capital for 2013 and 2012 were as follows:

($ MILLIONS) (INCREASE) DECREASE THREE MONTHS ENDED DECEMBER 31	2013	2012
Trade and other receivables	$ 6.6	$ 2.9
Inventories	36.4	11.7
Prepaids	0.9	–
Other assets	0.1	–
	$ 44.0	$ 14.6
Trade and other payables	(12.0)	0.2
Deferred revenue and customer deposits	0.5	0.6
Equipment notes payable	(32.7)	(25.0)
	$ (44.2)	$ (24.2)
Net increase in non-cash working capital	$ (0.2)	$ (9.6)

As noted above, equipment inventory and floor plan debt decreased in the last quarter of 2013, as a result of concerted management efforts to reduce inventory levels and improve inventory turns. Equipment inventory at the end of the fourth quarter was $212.0 million, declining from $253.6 million at September 30, 2013, which compared to $244.4 million at the previous year end. Consistent with the year over year reduction in equipment inventory, equipment notes declined from $225.1 million at September 30, 2013 to $193.0 million at December 31, 2013, which compared to $209.1 million at December 31, 2012.

Cash Used In Investing Activities:

Cash used in investing activities in the fourth quarter of 2013 totalled $5.5 million, which compared to $0.4 million of cash provided from investing activities in the fourth quarter of 2012. During the quarter the Company purchased $5.6 million of new rental fleet assets and sold rental fleet assets for proceeds of $4.9 million. Capital expenditures in the fourth quarter of 2013 totalled $7.3 million, the majority of which related to the implementation of the new Dealer Management System and expenditures related to the new Fort McMurray branch. In addition, during the fourth quarter the Company sold its Ste-Foy, Quebec branch for proceeds of $2.4 million.

The components of the cash used in investing activities were as follows:

($ MILLIONS)

THREE MONTHS ENDED DECEMBER 31	2013	2012
Purchase of rental fleet assets	$ (5.6)	$ (1.7)
Proceeds from sale of rental fleet assets	4.9	3.3
Purchase of capital assets	(7.3)	(1.3)
Proceeds from sale of property and equipment	2.5	0.1
Cash (used) provided in investing activities	$ (5.5)	$ 0.4

Cash Provided By Financing Activities:

In the fourth quarter of 2013, net cash of $1.0 million was used in financing activities, which compared to net cash of $0.3 million used in financing activities in the fourth quarter of 2012.

In the fourth quarter of 2013, net cash of $1.0 million was used in financing activities, with $3.0 million from construction loans financing the new branches in Fort McMurray, Alberta and Saint-Augustin-de-Desmaures, Quebec, $2.9 million from a decrease in long-term equipment notes and an increase in the bank operating line of $0.2 million. Repayment of the Canadian term loan amounted to $0.4 million and repayment of finance leases amounted to $0.9 million.

The components of cash used in financing activities in the fourth quarter are summarized as follows:

($ MILLIONS)

THREE MONTHS ENDED DECEMBER 31	2013	2012
Repayment of acquisition promissory notes	$ –	$ (0.2)
Construction loan – new Edmonton branch	–	0.5
Construction loan – new Fort McMurray branch	1.9	–
Construction loan – new Saint-Augustin-de-Desmaures branch	1.1	–
Repayment of term loan – Canada	(0.4)	(1.1)
Decrease in long-term equipment notes	(2.9)	(1.1)
Increase in bank indebtedness	0.2	2.3
Repayment of finance lease obligations	(0.9)	(0.7)
Cash used in financing activities	$ (1.0)	$ (0.3)

Summary of Quarterly Data

In general, business activity follows a weather related pattern of seasonality. Typically, the first quarter is the weakest of the year as construction and infrastructure activity is constrained in the winter months. This is followed by a strong gain in the second quarter as construction and other contracts begin to be tendered and companies begin to prepare for summer activity. The third quarter generally tends to be slightly slower from an equipment sales standpoint, which is partially offset by continued strength in equipment rentals and customer support activities. Fourth quarter activity generally strengthens as customers make year-end capital spending decisions and exercise purchase options on equipment which has previously gone out on RPOs. In addition, purchases of snow removal equipment are typically made in the fourth quarter.

A summary of quarterly results for the current and previous two years is as follows:

2013

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	Q4	Q3	Q2	Q1
Revenue	$ 116.4	$ 131.7	$ 140.2	$ 97.5
Earnings from continuing operations before income taxes	(0.2)	2.9	4.0	(3.0)
Net income	0.3	2.0	2.9	(2.2)
Basic and diluted earnings per share	$ 0.02	$ 0.15	$ 0.22	$ (0.16)

2012 (note 1)

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	Q4	Q3	Q2	Q1
Revenue	$ 116.0	$ 119.2	$ 132.2	$ 96.8
Earnings from continuing operations before income taxes	0.7	3.4	4.2	1.6
Net income	0.5	2.4	3.1	1.1
Basic and diluted earnings per share	$ 0.04	$ 0.18	$ 0.23	$ 0.08

2011

($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	Q4	Q3	Q2	Q1
Revenue	$ 113.2	$ 108.4	$ 114.1	$ 87.5
Earnings from continuing operations before income taxes	2.8	3.8	3.8	0.7
Net income	2.1	3.6	3.6	0.6
Basic and diluted earnings per share	$ 0.15	$ 0.28	$ 0.28	$ 0.05

Note 1 – Comparative figures have been adjusted to reflect the impact of IAS 19, adopted on January 1, 2013.

A discussion of the Company's previous quarterly results can be found in the quarterly Management's Discussion and Analysis reports available on SEDAR at www.sedar.com.

Contractual Obligations

The Company has contractual obligations for operating lease commitments totalling $40.0 million. In addition, the Company has contingent contractual obligations where it has agreed to buy back equipment from customers at the option of the customer for a specified price at future dates ("buy back contracts"). These buy back contracts are subject to certain conditions being met by the customer and range in term from three to 10 years. The Company's maximum potential losses pursuant to the majority of these buy back contracts are limited, under an agreement with a third party, to 10% of the original sale amounts. In addition, this agreement provides a financing arrangement in order to facilitate the buy back of equipment. As at December 31, 2013, outstanding buy back contracts totalled $11.6 million, which compared to $13.6 million at December 31, 2012. A reserve of $1.0 million has been accrued in the Company's accounts as at December 31, 2013 with respect to these commitments, compared to a reserve of $1.1 million a year ago.

The Company has provided a guarantee of lease payments under the assignment of a property lease which expires January 31, 2014. Total lease payments from January 1, 2014 to January 31, 2014 are $0.01 million.

Contractual obligations are set out in the following tables. Management believes that the Company will generate sufficient cash flow from operations to meet its contractual obligations.

		PAYMENT DUE BY PERIOD			
($ MILLIONS)	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	AFTER 5 YEARS
Operating leases	$ 40.0	$ 6.6	$ 11.6	$ 7.3	$ 14.5

		CONTINGENT OBLIGATION BY PERIOD			
($ MILLIONS)	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	AFTER 5 YEARS
Buy back contracts	$ 11.6	$ 0.9	$ 6.9	$ 3.3	$ 0.5

Shareholder Capital

The Company is authorized to issue an unlimited number of shares. All shares are of the same class of common shares with equal rights and privileges.

On August 10, 2013, the Company issued 93,000 shares related to the exercise of employee stock options, having a strike price of $2.98 per share, for gross proceeds of $0.2 million. The total shares outstanding following completion of the shares issued on the exercise of the stock options was 13,221,719.

COMMON SHARES ISSUED AND OUTSTANDING SHARES	NUMBER OF SHARES
Common shares outstanding as at December 31, 2012	13,128,719
Common shares issued	93,000
Common shares outstanding as at December 31, 2013	13,221,719

On March 28, 2013, as part of Strongco's Long-Term Incentive Plan, the Company granted irrevocable options to purchase 88,714 shares of the Company and 47,065 restricted share units ("RSUs") to certain members of senior management. The options have an exercise price of $4.92 per share, which is equal to the average trading price of the Company's units over the five days immediately preceding March 28, 2013. The options vest in three equal tranches at 36 months, 48 months and 60 months from the grant date, and expire seven years from the issue date, on March 28, 2020. The RSUs vest fully on the third anniversary of the date of grant, and can be settled by the Company either through the purchase of common shares on the open market, or in cash.

Non-IFRS Measures

"EBITDA" refers to earnings before interest, income taxes, amortization of capital assets, amortization of equipment inventory on rent, and amortization of rental fleet. EBITDA is presented as a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not a measure of financial performance or earnings recognized under International Financial Reporting Standards ("IFRS") and therefore has no standardized meaning prescribed by IFRS and may not be comparable to similar terms and measures presented by other similar issuers. The Company's management believes that EBITDA is an important supplemental measure in evaluating the Company's performance and in determining whether to invest in shares. Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of the Company's liquidity and cash flows.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. The Company bases its estimates and assumptions on past experience and various other assumptions that are believed to be reasonable in the circumstances. This involves varying degrees of judgment and uncertainty, which may result in a difference in actual results from these estimates. The more significant estimates are as follows:

Inventory Valuation

The value of the Company's new and used equipment is evaluated by management throughout each year. Where appropriate, a provision is recorded against the book value of specific pieces of equipment to ensure that inventory values reflect the lower of cost and estimated net realizable value. The Company identifies slow moving or obsolete parts inventory and estimates appropriate obsolescence provisions by aging the inventory. The Company takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods. The inventory provision as at December 31, 2013 with changes from December 31, 2012 is as follows:

PROVISION FOR INVENTORY OBSOLESCENCE ($ MILLIONS)		
Provision for inventory obsolescence as at December 31, 2012	$	4.7
Provision related to inventory disposed of during the year		(1.5)
Additional provisions made during the year		1.2
Provision for inventory obsolescence as at December 31, 2013	$	4.4

Allowance for Doubtful Accounts

The Company performs credit evaluations of customers and limits the amount of credit extended to customers as appropriate. The Company is however exposed to credit risk with respect to accounts receivable and maintains provisions for possible credit losses based upon historical experience and known circumstances. The allowance for doubtful accounts as at December 31, 2013 with changes from December 31, 2012 is as follows:

ALLOWANCE FOR DOUBTFUL ACCOUNTS ($ MILLIONS)		
Allowance for doubtful accounts as at December 31, 2012	$	1.1
Accounts written off during the year		(0.4)
Additional provisions made during the year		0.5
Allowance for doubtful accounts as at December 31, 2013	$	1.2

Post Retirement Obligations

Strongco performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other non-pension post retirement obligations. Pension costs are accounted for and disclosed in the notes to the financial statements on an accrual basis. Strongco records employee future benefit costs other than pensions on an accrual basis. The accrual costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The assumptions were determined by management, recognizing the recommendations of Strongco's actuaries. These key assumptions include the rate used to discount obligations, the expected rate of return on plan assets, the rate of compensation increase and the growth rate of per capita health care costs.

The discount rate is used to determine the present value of future cash flows that management expects will be required to pay employee benefit obligations. Management's assumptions of the discount rate are based on current interest rates on long-term debt of high-quality corporate issuers.

The assumed return on pension plan assets of 6.5% per annum is based on expectations of long-term rates of return at the beginning of the fiscal year and reflects a pension asset mix consistent with the Company's investment policy. The costs of employee future benefits other than pension are determined at the beginning of the year and are based on assumptions for expected claims experience and future health care cost inflation.

Changes in assumptions will affect the accrued benefit obligation of Strongco's employee future benefits and the future years' amounts that will be charged to results of operations.

Future Income Taxes

At each quarter end the Company evaluates the value and timing of the Company's temporary differences. Future income tax assets and liabilities, measured at substantively enacted tax rates, are recognized for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the consolidated financial statements.

Changes or differences in these estimates or assumptions may result in changes to the current or future tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statements of earnings, and may result in cash payments or receipts. Where appropriate, the provision for future income taxes and future income taxes payable are adjusted to reflect management's best estimate of the Company's future income tax accounts.

Risks and Uncertainties

Strongco's financial performance is subject to certain risk factors which may affect any or all of its business sectors. The following is a summary of risk factors which are felt to be the most relevant. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or which it currently considers immaterial may also impair its operations of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company, its ability to make cash dividends to shareholders and the trading price of the Company's shares could be adversely affected.

BUSINESS AND ECONOMIC CYCLES

Strongco operates in a capital intensive environment. Strongco's customer base consists of companies operating in the construction and urban infrastructure, aggregates, forestry, mining, municipal, utility, industrial and resource sectors, which are all affected by trends in general economic conditions within their respective markets. Changes in interest rates, commodity prices, exchange rates, availability of capital and general economic prospects may all impact their businesses by affecting levels of consumer, corporate and government spending. Strongco's business and financial performance is largely affected by the impact of such business cycle factors on its customer base. The Company has endeavoured to minimize this risk by: (i) operating in various geographic territories across Canada with the belief that not all regions are subject to the same economic factors at the same time, (ii) serving a variety of industries which respond differently at different points in time to business cycles and (iii) seeking to increase the Company's focus on customer support (parts and service) activities, which are less subject to changes in the economic cycle.

COMPETITION

Strongco faces strong competition from various distributors of products which compete with the products it sells. The Company competes with regional and local distributors of competing product lines. Strongco competes on the basis of: (i) relationships maintained with customers over many years of service; (ii) prompt customer service through a network of sales and service facilities in key locations; (iii) access to products; and (iv) the quality and price of their products. In most product lines in most geographic areas in which Strongco operates, their main competitors are distributors of products manufactured by Caterpillar, John Deere, Komatsu, Hitachi and other smaller brands.

MANUFACTURER RISK

Most of Strongco's equipment distribution business consists of selling and servicing mobile equipment products manufactured by others. As such, Strongco's financial results may be directly impacted by: (i) the ability of the manufacturers it represents to provide high quality, innovative and widely accepted products on a timely and cost effective basis and (ii) the continued independence and financial viability of such manufacturers.

Most of Strongco's equipment distribution business is governed by distribution agreements with the OEMs, including Volvo, Case and Manitowoc. These agreements grant the right to distribute the manufacturers' products within defined territories which typically cover an entire province. It is an industry practice that, within a defined territory, a manufacturer grants distribution rights to only one distributor. This is true for the majority of the distribution arrangements entered into by Strongco. Most distribution agreements are cancellable upon 60 to 90 days' notice by either party.

Some of Strongco's equipment suppliers provide floor plan financing to assist with the purchase of equipment inventory. In some cases this is done by the manufacturer, and in other cases the manufacturer engages a third party lender to provide the financing. Floor plan arrangements include an interest-free period of up to 12 months.

The termination of one or more of Strongco's distribution agreements with its OEMs, as a result of a change in control of the manufacturer or otherwise, may have a negative impact on the operations of Strongco.

In addition, availability of products for sale is dependent upon the absence of significant constraints on supply of products from OEMs. During times of intense demand or during any disruption of the production of such equipment, Strongco's equipment manufacturers may find it necessary to allocate their limited supply of particular products among their distributors.

The ability of Strongco to maintain and expand its customer base is dependent upon the ability of Strongco's suppliers to continuously improve and sustain the high quality of their products at a reasonable cost. The quality and reputation of their products is not within Strongco's control and there can be no assurance that Strongco's suppliers will be successful in improving and sustaining the quality of their products. The failure of Strongco's suppliers to maintain a market presence could have a material impact upon the earnings of the Company.

The Company believes that this element of risk has been mitigated through the representation of its equipment manufacturers with demonstrated ability to produce a competitive, well accepted, high quality product range and by distributing products of multiple manufacturers.

In addition, distribution agreements with these manufacturers are cancellable by either party within a relatively short notice period as specified in the relevant distribution agreement. However, Strongco believes that it has established strong relationships with its key manufacturers and maintains significant market share for their product and as a result is at little risk of distribution agreements being cancelled.

CONTINGENCIES

In the ordinary course of business, the Company may be exposed to contingent liabilities in varying amounts and for which provisions have been made in the consolidated financial statements as appropriate. These liabilities could arise from litigation, environmental matters or other sources. As at December 31, 2013, there are no amounts accrued for contingent liabilities.

DEPENDENCE ON KEY PERSONNEL

The expertise and experience of its senior management is an important factor in Strongco's success. Strongco's continued success is thus dependent on its ability to attract and retain experienced management.

INFORMATION SYSTEMS

The Company utilizes a legacy business system which has been successfully in operation for over 15 years. As with any business system, it is necessary to evaluate its adequacy and support of current and future business demands. The system was written and was supported by the Company's Information Systems Manager, who retired on December 31, 2006. The Company is utilizing an outside consultant to support its current system and is currently implementing a new Dealer Management System to replace its current system.

FOREIGN EXCHANGE

While the majority of the Company's sales are in Canadian dollars, significant portions of its purchases are in U.S. dollars. While the Company believes that it can maintain margins over the long term, short, sharp fluctuations in exchange rates may have a short term impact on earnings. In order to minimize the exposure to fluctuations in exchange rates, the Company enters into foreign exchange forward contracts on a transaction specific basis.

INTEREST RATE

Interest rate risk arises from potential changes in interest rates which impact the cost of borrowing. The majority of the Company's debt is floating rate debt which exposes the Company to fluctuations in short term interest rates. See discussion under "Cash Flow, Financial Resources and Liquidity" above.

RISKS RELATING TO THE SHARES

Unpredictability and Volatility of Share Price

A publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the shares will trade cannot be predicted. The market price of the shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the shares as compared to the annual yield on other financial instruments may also influence the price of shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the shares.

LEVERAGE AND RESTRICTIVE COVENANTS

The existing credit facilities contain restrictive covenants that limit the discretion of Strongco's management with respect to certain business matters and may, in certain circumstances, restrict the Company's ability to make dividends, which could adversely impact cash dividends on the shares. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create other security interests, to complete amalgamations and acquisitions, to make capital expenditures, to pay dividends or make certain other payments and guarantees and to sell or otherwise dispose of assets. The existing credit facilities also contain financial covenants requiring the Company to satisfy financial ratios and tests (see discussion under "Financial Condition and Liquidity" above). A failure of the Company to comply with its obligations under the existing credit facilities could result in an event of default which, if not cured or waived, could permit the acceleration of the relevant indebtedness. The existing credit facilities are secured by customary security for transactions of this type, including first ranking security over all present and future personal property of the Company, a mortgage over the Company's central real property and an assignment of insurance. If the Company is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale. There can be no assurance that, at any particular time, if the indebtedness under the existing credit facilities were to be accelerated, the Company's assets would be sufficient to repay in full that indebtedness.

The existing credit facilities are payable on demand following an event of default and are renewable annually. If the existing credit facilities are replaced by new debt that has less favourable terms or if the Company cannot refinance its debt, funds available for operations may be adversely impacted.

RESTRICTIONS ON POTENTIAL GROWTH

The payout by the Company of a significant portion of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Company and its cash flow.

Disclosure Controls and Internal Controls Over Financial Reporting

DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on management's evaluation of the design and effectiveness of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 31, 2013 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as the control framework in designing its internal controls over financial reporting. Based on management's design and testing of the effectiveness of the Company's internal controls over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 31, 2013 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 31, 2013, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Forward-Looking Statements

This Management's Discussion and Analysis contains forward-looking statements that involve assumptions and estimates that may not be realized, and other risks and uncertainties. These statements relate to future events or future performance and reflect management's current expectations and assumptions, which are based on information currently available to the Company's management. The forward-looking statements include but are not limited to: (i) the ability of the Company to meet contractual obligations through cash flow generated from operations, (ii) the expectation that customer support revenues will grow following the warranty period on new machine sales and (iii) the outlook for 2014. There is significant risk that forward-looking statements will not prove to be accurate. These statements are based on a number of assumptions, including, but not limited to, continued demand for Strongco's products and services. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. The inclusion of this information should not be regarded as a representation of the Company or any other person that the anticipated results will be achieved and investors are cautioned not to place undue reliance on such information. These forward-looking statements are made as of the date of this MD&A, or as otherwise stated, and the Company does not assume any obligation to update or revise them to reflect new events or circumstances.

Additional information, including the Company's Annual Information Form, may be found on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated financial statements of Strongco Corporation ("the Company") were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the audited consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 2 to the audited consolidated financial statements.

Management has established processes, which are in place to provide them with sufficient knowledge to support management representations that they have exercised reasonable diligence that: (i) the audited consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the years presented by the audited consolidated financial statements; and (ii) the audited consolidated financial statements present fairly in all material respects the financial position, financial performance and cash flows of the Company, as of the date of and for the years presented by the audited consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the audited consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the audited consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Robert H.R. Dryburgh
President and Chief
Executive Officer

March 26, 2014

J. David Wood
Vice President and
Chief Financial Officer

March 26, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Strongco Corporation:

We have audited the accompanying consolidated financial statements of Strongco Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strongco Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Toronto, Canada
March 26, 2014

Ernst & Young, LLP
Chartered Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

AS AT DECEMBER 31	2013	2012
ASSETS		
Current assets		
Cash	$ 57	$ 1,395
Trade and other receivables (note 4)	48,762	44,376
Inventories (note 5)	242,579	274,620
Prepaid expenses and other deposits	2,017	1,959
	293,415	322,350
Non-current assets		
Property and equipment (note 6)	61,385	38,894
Rental fleet (note 6)	29,844	18,588
Deferred income tax asset (note 7)	–	880
Intangible asset (note 8)	1,800	1,800
Other assets	155	291
	93,184	60,453
Total assets	$ 386,599	$ 382,803
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 9 (a))	$ 25,402	$ 15,307
Trade and other payables (note 10)	32,725	47,264
Provision for other liabilities (note 11)	177	334
Deferred revenue and customer deposits	1,396	1,261
Equipment notes payable – non-interest-bearing (note 12)	29,079	37,566
Equipment notes payable – interest-bearing (note 12)	163,899	171,491
Current portion of finance lease obligations (note 9 (b))	4,612	3,495
Current portion of notes payable (note 9 (c))	4,958	3,077
	262,248	279,795
Non-current liabilities		
Deferred income tax liability (note 7)	3,365	2,925
Finance lease obligations (note 9 (b))	6,479	5,581
Notes payable (note 9 (c))	36,972	20,000
Employee future benefit obligations (note 13)	4,405	9,801
	51,221	38,307
Total liabilities	$ 313,469	$ 318,102
Contingencies, commitments and guarantees (note 21)		
Shareholders' equity		
Shareholders' capital (note 14)	65,324	64,898
Accumulated other comprehensive income	950	29
Contributed surplus	875	707
Retained earnings (deficit)	5,981	(933)
Total shareholders' equity	73,130	64,701
Total liabilities and shareholders' equity	$ 386,599	$ 382,803

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED, EXCEPT SHARE AND PER SHARE AMOUNTS)

FOR THE YEARS ENDED DECEMBER 31	2013	2012
		(Restated – note 2)
Revenue (note 15)	$ 485,721	$ 464,181
Cost of sales (note 17)	396,869	377,727
Gross profit	88,852	86,454
Expenses		
Administration (notes 4, 13 and 17)	36,595	33,050
Distribution (note 17)	25,626	23,003
Selling (note 17)	15,507	14,499
Other income (note 16)	(3,359)	(1,828)
Operating income	14,483	17,730
Interest expense (note 18)	10,814	8,012
Interest expense	10,814	8,012
Income before income taxes	3,669	9,718
Provision for income taxes (note 7)	674	2,697
Net income attributable to shareholders for the year	$ 2,995	$ 7,021
Earnings per share (note 19)		
Basic and diluted	$ 0.23	$ 0.53
Weighted average number of shares (note 19)		
– basic	13,164,900	13,128,719
– diluted	13,184,278	13,184,475

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED, EXCEPT SHARE AND PER SHARE AMOUNTS)

FOR THE YEARS ENDED DECEMBER 31	2013	2012
		(Restated – note 2)
Net income attributable to shareholders for the year	$ 2,995	$ 7,021
Other comprehensive income (loss)		
Items will not be reclassified subsequently to net income:		
Actuarial gain on post-employment benefit obligations (net of tax of $1,394 for 2013; 2012 – $374)	3,919	1,056
Adjustment to employee benefit obligation due to Ontario tax rate change	–	116
Items may be reclassified subsequently to net income:		
Currency translation adjustment	921	(292)
Total other comprehensive income	4,840	880
Comprehensive income attributable to shareholders for the year	$ 7,835	$ 7,901

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED, EXCEPT SHARE AND PER SHARE AMOUNTS)

FOR THE YEARS ENDED DECEMBER 31

(Restated – note 2)	NUMBER OF SHARES	SHAREHOLDERS' CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
Balance – December 31, 2011	13,128,719	$ 64,898	$ 205	$ 498	$ (9,010)	$ 56,591
Net income for the year		–	–	–	7,021	7,021
Other comprehensive income (loss):						
Post-employment benefit obligations (net of tax)		–	–	–	1,056	1,056
Currency translation adjustment		–	(292)	–	–	(292)
Adjustment to employee benefit obligation due to Ontario tax rate change		–	116	–	–	116
Total other comprehensive income	–	–	(176)	–	1,056	880
Contributed surplus		–	–	209	–	209
Balance – December 31, 2012	13,128,719	$ 64,898	$ 29	$ 707	$ (933)	$ 64,701

	NUMBER OF SHARES	SHAREHOLDERS' CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
Balance – December 31, 2012	13,128,719	$ 64,898	$ 29	$ 707	$ (933)	$ 64,701
Net income for the year		–	–	–	2,995	2,995
Other comprehensive income:						
Post-employment benefit obligations (net of tax)		–	–	–	3,919	3,919
Currency translation adjustment		–	921	–	–	921
Total other comprehensive income	–	–	921	–	3,919	4,840
Contributed surplus	–	–	–	316	–	316
Issued on exercise of stock options	93,000	426	–	(148)	–	278
Balance – December 31, 2013	13,221,719	$ 65,324	$ 950	$ 875	$ 5,981	$ 73,130

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS) FOR THE YEARS ENDED DECEMBER 31	2013	2012
		(Restated – note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	$ 2,995	$ 7,021
Adjustments for		
Depreciation – property and equipment	5,075	4,233
Depreciation – equipment inventory on rent	21,671	23,159
Depreciation – rental fleet	3,774	3,189
Gain on disposal of property and equipment	(3,080)	(101)
Loss (gain) on sale of rental fleet	570	(770)
Contributed surplus	168	209
Interest expense	10,814	8,012
Income tax expense	674	2,697
Employee future benefit expense	639	1,812
Foreign exchange gain	(28)	(4)
Changes in working capital (note 26)	(19,625)	(31,601)
Funding of employee future benefit obligations	(2,116)	(2,544)
Interest paid	(11,295)	(7,771)
Income taxes paid	(3,635)	(67)
Net cash provided by operating activities	$ 6,601	$ 7,474
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of rental fleet	(17,465)	(11,635)
Proceeds from sale of rental fleet	13,106	9,260
Purchases of property and equipment	(33,646)	(5,865)
Proceeds from sale of property and equipment	13,966	133
Net cash used in investing activities	$ (24,039)	$ (8,107)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bank indebtedness	10,055	4,371
Increase in long-term debt	14,213	2,783
Repayment of long-term debt	(4,864)	(1,867)
Repayment of finance lease obligations	(3,273)	(2,477)
Issue of share capital	426	–
Repayment of business acquisition purchase financing	(514)	(776)
Net cash provided by financing activities	$ 16,043	$ 2,034
Foreign exchange on cash balances	57	(6)
Change in cash and cash equivalents during year	$ (1,338)	$ 1,395
Cash and cash equivalents – Beginning of year	1,395	–
Cash and cash equivalents – End of year	$ 57	$ 1,395

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 General information

Strongco Corporation ("Strongco" or "the Company") sells and rents new and used equipment and provides after-sale product support (parts and service) to customers that operate in infrastructure, construction, mining, oil and gas exploration, forestry and industrial markets in Canada and the United States.

The Company is a public entity, incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of its registered office is 1640 Enterprise Road, Mississauga, Ontario L4W 4L4.

NOTE 2 Summary of significant accounting policies

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in compliance therewith.

The consolidated financial statements were approved and authorized for issue by the board of directors on March 26, 2014.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The consolidated financial statements have been prepared on a going concern basis and the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Strongco and its subsidiaries over which it has control. The Company controls an investee when the Company is exposed to, or has rights to, variable returns from its relationship with the investee and has the ability to affect those returns through its power over the investee. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power. These facts and circumstances include: the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Company, other vote holders or other parties; and rights arising from other contractual arrangements. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and are deconsolidated on the date when control ceases.

Intra-group balances and transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Strongco Corporation, through its wholly owned subsidiary Strongco USA Inc. owns 100% of Chadwick-BaRoss, Inc. ("Chadwick-BaRoss" or "CBR"). CBR is a multiline equipment dealer headquartered in Westbrook, Maine, with three branches in Maine and one in each of New Hampshire and Massachusetts. CBR sells, rents and services equipment used in sectors such as construction, infrastructure, utilities, municipalities, waste management and forestry.

SEGMENT REPORTING

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, with appropriate aggregation. The chief operating decision maker is the President and Chief Executive Officer who is responsible for allocating resources, assessing performance of the reportable segment and making key strategic decisions. The Company has determined that it has one reportable segment, Equipment Distribution, which is located in Canada and the United States. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

REVENUE RECOGNITION

Revenue is recognized when there is a written arrangement in the form of a contract or purchase order with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved, ultimate collection of the revenue is reasonably assured and when specific criteria have been met for each of the Company's activities as described below.

a) Revenue from equipment sales is recognized at the time title to the equipment and significant risks of ownership pass to the customer, which is generally at the time of shipment of the product to the customer. From time to time, the Company agrees to buy back equipment from certain customers at the option of the customer for a specified price at future dates. The Company's maximum potential losses pursuant to the majority of these buy-back contracts are limited, under an agreement with a third party, to 10% of the original sale amounts. These transactions are accounted for as finance leases under IAS 17 – *Leases*. In accordance with the standard, these types of transactions are accounted for as a sale.

b) Revenue from equipment rentals is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used. Certain rental contracts contain an option for the customer to purchase the equipment at the end of the rental period. Should the customer exercise this option to purchase, revenue from the sale of the equipment is recognized as in (a) above.

c) Product support services include sales of parts and servicing of equipment. For the sale of parts, revenue is recognized when the part is shipped to the customer. For servicing of equipment, revenue related to the service performed and parts consumed is recognized as the service work is completed.

FOREIGN CURRENCY TRANSLATION

a) Functional and presentational currency

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized as other income in the consolidated statements of income.

The financial statements of entities that have a functional currency different from that of Strongco (foreign operations) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate as at the date of the consolidated statements of financial position; income and expenses – at the average rate of the period (as this is considered a reasonable approximation of actual rates). All resulting changes are recognized in other comprehensive income as currency translation adjustments.

EMPLOYEE BENEFIT OBLIGATIONS

a) Pension obligations

Employees of the Company have entitlements under Company pension plans, which are either defined contribution or defined benefit plans.

The liability recognized in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial valuations for defined benefit plans are carried out annually. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Net interest is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation (at the beginning of the year) and is included in the employee future benefit expense.

Changes in actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and fair value of plan assets are recognized in other comprehensive income in the period in which they arise and charged or credited to retained earnings. On an interim basis, management estimates the changes in the actuarial gains and losses. These estimates are adjusted when the annual valuation or estimate is completed by the independent actuaries.

Past-service costs are recognized immediately within operating expenses in the consolidated statements of income.

For defined contribution plans, contributions are recognized as post-employment benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Other employee future obligations

The Company also has other employee future obligations, including an unfunded retirement allowance plan and a non-contributory dental and health-care plan. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

CONTRIBUTED SURPLUS

Strongco operates an equity-settled, share-based compensation plan, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The options vest over a period of time. The fair value of the services received in exchange for the grant of the options is recognized as an expense. Awards under the share-based compensation plan are made in tranches. Each tranche is considered a separate award with its own vesting period and grant date value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus, a component within shareholders' equity. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. For expired and cancelled options, contributed surplus expense is not reversed and the related credit remains in contributed surplus. When options are exercised, the Company issues new shares. The proceeds received are credited to shareholders' capital, together with the related amounts previously added to contributed surplus.

SHAREHOLDERS' CAPITAL

Shareholders' capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. The cost of equipment inventory is determined on a specific item basis. The cost of parts is determined on a weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Equipment inventory on rent, but primarily held for sale, is amortized based on expected usage during the rental period, which is generally at a rate of between 60% and 80% of rental revenue, which approximates the usage.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and any impairment. Cost includes expenditures that are directly attributable to the acquisition of the assets. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment and each component is depreciated separately. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to operating expenses in the consolidated statement of income during the period in which they are incurred.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted, if appropriate, at each financial period end. Land is not depreciated.

Depreciation is provided on other assets at rates that approximate the estimated useful life on a diminishing balance method as follows:

Buildings and leasehold improvements	3% to 5%
Machinery and equipment	10% to 30%
Vehicles	25% to 30%
Computer equipment	30%

Computer equipment under finance lease and leasehold improvements are amortized on a straight-line basis over the remaining term of the lease.

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated fair value. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within operating expenses in the consolidated statement of income.

RENTAL FLEET

The Company's rental fleet is stated at cost, less accumulated depreciation. The rental fleet includes specifically identified equipment that is not held for sale and is only available for rent. For financial statement purposes, depreciation is computed on a percentage of rent basis, generally at a rate of between 60% and 80% of rental revenue, which approximates the usage. Cost includes expenditures that are directly attributable to the acquisition of the assets, as well as charges that increase the useful life of the asset. Routine repair and maintenance costs are charged to operating expenses in the consolidated statement of income during the period in which they are incurred.

INTANGIBLE ASSET

The intangible asset is comprised of a distribution right acquired in a business combination that was recognized at fair value at the acquisition date. The distribution right has an indefinite life and is not subject to amortization but is subject to an annual review for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of income in the period in which they are incurred.

INCOME TAXES

The provision for (recovery of) income taxes for the period comprises current and deferred income taxes. Income taxes are recognized as an expense in the consolidated statements of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. For items recognized in other comprehensive income or directly in equity, any applicable income taxes are also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statements of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted as at the consolidated statements of financial position date and that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are presented as non-current.

PROVISIONS

Provisions for restructuring costs, legal claims, equipment buy backs and certain other obligations are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

EQUIPMENT NOTES PAYABLE

Equipment notes payable are used to finance the purchase of equipment inventory. The equipment notes payable are recognized initially at fair value and are subsequently measured at amortized cost; any difference between the proceeds and redemption value is recognized as interest expense in the consolidated statement of income over the term of the equipment notes payable using the effective interest rate method.

DEBT

Debt comprises bank indebtedness under the Company's operating line of credit, finance lease obligations and notes payable. Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently measured at amortized cost. Any difference between the proceeds and redemption value is recognized as interest expense in the consolidated statements of income over the term of the borrowings using the effective interest rate method.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Property and equipment and the Company's rental fleet are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, comprising the Company's distribution right intangible asset, are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped into the lowest levels for which there are separately identifiable cash inflows ("cash-generating units" or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates potential reversals on previously recorded impairment losses when events or circumstances warrant such consideration.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to operating expenses in the consolidated statements of income on a straight-line basis over the period of the lease.

Leases of property and equipment in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Finance lease payments are allocated between their liability and finance components so as to achieve a constant rate on their outstanding obligations. The interest element of the finance cost is charged to the consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss: a financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The only instruments held by the Company classified in this category are foreign currency forward contracts and interest rate swaps.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are recorded as an expense in the consolidated statements of income. Gains and losses arising from changes in fair value are presented in the consolidated statements of income within other income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statements of financial position date, which is classified as non-current.

ii) Loans and receivables: loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade and other receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iii) Financial liabilities at amortized cost: financial liabilities at amortized cost include bank indebtedness, trade and other payables, provisions, income taxes payable, interest-bearing and non-interest-bearing equipment notes payable, finance lease obligations and notes payable.

iv) Derivative financial instruments: the Company uses derivatives in the form of foreign currency forward contracts to reduce the impact of currency fluctuations on the cost of equipment ordered for future delivery to customers. The Company also uses interest rate swaps to reduce the impact of interest rate fluctuations on its borrowings. Derivatives that have been classified as held-for-trading are included in the balance within trade and other payables.

IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset, and this loss event, or events, has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized within operating expenses in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in a customer's credit rating, the reversal of the previously recognized impairment loss is recognized as a reduction in expense in the consolidated statements of income.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income for the period attributable to shareholders of Strongco by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Strongco's potentially dilutive common shares comprise options granted to employees.

NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

On January 1, 2013, the Company applied, for the first time, certain standards and amendments which include amendments to IAS 1 *Presentation of Financial Statements*, IAS 19 (Revised 2011) *Employee Benefits* ("IAS 19R"), IAS 28 *Investments in Associates and Joint Ventures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, and IAS 36 *Impairment of Assets*.

The 2012 comparative consolidated financial statements have been restated to reflect the newly adopted IFRS standards. The nature and the impact of each new standard/amendment which affects the Company are described below:

IAS 1 *Presentation of Financial Statements*

This standard has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. The IASB amended IAS 1 by revising how certain items are presented in OCI. Items within OCI that may be reclassified to profit and loss have been separated from items that will not be reclassified. While this amendment has impacted presentation in the consolidated statement of comprehensive income, it did not impact the Company's consolidated income, comprehensive income or consolidated financial position.

IAS 19 *Employee Benefits*

This standard has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in OCI as they arise, without subsequent recycling to net income.

Past-service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between: (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification, including redefinition of short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

The Company adopted revisions to IAS 19 *Employee Benefits* ("IAS 19R") effective January 1, 2013. As a result, expected returns on plan assets of defined benefit plans are not recognized in income. Instead, interest on net defined benefit obligation is recognized in income, calculated using the discount rate used to measure the net pension obligation or asset.

The change in accounting policy has been applied retrospectively. As all components of OCI related to employee benefits were previously recognized in retained earnings, there was no impact on the January 1, 2012 and December 31, 2012 consolidated statements of financial position from the adoption of IAS 19R.

The following is a summary of the impact of the adjustments related to the adoption of IAS 19R on the respective financial statements (for all four plans combined).

For the year ended December 31, 2012:

- Increase in employee future benefits – $780
- Decrease in income tax expense – $203
- Decrease in net earnings – $577, $0.05 per share
- Decrease in other comprehensive loss – $577.

IAS 28 *Investments in Associates and Joint Ventures*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of this standard did not have an impact on the consolidated financial statements, other than disclosure.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC – 12 *Consolidations – Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*. The adoption of this standard did not have an impact on the consolidated financial statements, other than disclosure.

IFRS 11 *Joint Arrangements*

IFRS 11 replaced IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This new standard eliminates the use of the proportionate consolidation method to account for jointly controlled entities and requires jointly controlled entities that meet the definition of a joint venture to be accounted for using the equity method of accounting. The adoption of this standard did not have an impact on the consolidated financial statements, other than disclosure.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous requirements included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investment in Associates*.

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement. The adoption of this standard affected disclosures but did not have a significant impact on the financial results.

IAS 36 *Impairment of Assets*

In May 2013, the IASB amended IAS 36 to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, to clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The Company has early adopted this amendment. This amendment affects disclosures but does not have a material impact on financial results.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

FUTURE CHANGES IN ACCOUNTING STANDARDS

The following changes in accounting standards will be adopted by the Company on the effective date of January 1, 2014:

IAS 32 *Financial Instruments: Presentation*

In December 2011, the IASB amended IAS 32 to clarify certain requirements for offsetting financial assets and liabilities. The amendment addresses the meaning and application of the concepts of legally enforceable right of set-off and simultaneous realization and settlement. The amendment will affect presentation and disclosures but will not have an impact on financial results.

The following amendments to accounting standards will be effective for the Company subsequent to 2014:

IAS 19 *Employee Benefits*

In November 2013, the IASB amended IAS 19 to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The Company does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2015. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

In November 2013, the IASB issued a revised version of IFRS 9 which:

- Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in OCI rather than within profit or loss.
- Removes the mandatory effective date of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

IFRIC 21 *Levies*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is still assessing and quantifying the effect.

The Company does not anticipate early adoption and plans to adopt the standard on its effective date, which the IASB has tentatively decided will be no earlier than January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

NOTE 3 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities in the consolidated financial statements. The Company bases its estimates and assumptions on past experience and various other assumptions that are believed to be reasonable in the circumstances. This involves varying degrees of judgment and uncertainty, which may result in a difference in actual results from these estimates. The more significant estimates are as follows:

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company performs credit evaluations of customers and limits the amount of credit extended to customers as appropriate. The Company is, however, exposed to credit risk with respect to trade receivables and maintains provisions for possible credit losses based upon historical experience and known circumstances. The allowance for doubtful accounts as at December 31, 2013 with changes from January 1, 2013 is disclosed in note 4.

INVENTORY VALUATION

The value of the Company's new and used equipment is evaluated by management throughout each period. Where appropriate, a provision is recorded against the book value of specific pieces of equipment to ensure that inventory values reflect the lower of cost and estimated net realizable value. The Company identifies slow-moving or obsolete parts inventory and estimates appropriate obsolescence provisions by aging the inventory. Refer to note 5 for details regarding obsolescence provisions. The Company takes advantage of supplier programs that allow for the return of eligible parts for credit within specified time periods.

INTANGIBLE ASSET

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and forecast for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in note 8.

DEFERRED INCOME TAXES

At each year end, the Company evaluates the value and timing of its temporary differences. Deferred income tax assets and liabilities, measured at substantively enacted tax rates, are recognized for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the consolidated financial statements.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balance in the consolidated statements of financial position and a charge or credit to income tax expense in the consolidated statements of income, and may result in cash payments or receipts. Where appropriate, the provisions for deferred income taxes and deferred income taxes payable are adjusted to reflect management's best estimate of the Company's income tax accounts.

Judgment is also required in determining whether deferred income tax assets are recognized in the consolidated statements of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods in order to utilize recognized deferred income tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded at the reporting date could be impacted. Additional information is disclosed in note 7.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

The present value of the employee future benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for these obligations include the discount rate.

The Company determines the appropriate discount rate at the end of each period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related employee future benefit liability.

Other key assumptions for employee future benefit obligations are based in part on current market conditions. Additional information is disclosed in note 18. Any changes in these assumptions will impact the carrying amount of the employee future benefit obligations.

SHARE-BASED PAYMENT TRANSACTIONS

The Company measures the cost of share-based transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the share option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 20.

NOTE 4 Trade and other receivables

AS AT DECEMBER 31	2013	2012
Trade receivables	$ 43,032	$ 39,251
Less: Provision for impairment of trade receivables	1,225	1,095
Trade receivables, net	$ 41,807	$ 38,156
Other receivables	6,955	6,220
Total trade and other receivables	$ 48,762	$ 44,376

Due to their short-term nature, the fair value of trade and other receivables is not materially different from their carrying value.

As at December 31, 2013, trade receivables of $20,985 (December 31, 2012 – $17,587) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The aging of these receivables is as follows:

AS AT DECEMBER 31	2013	2012
Up to 3 months	$ 18,992	$ 16,667
3 to 6 months	1,727	713
Over 6 months	266	206
	$ 20,985	$ 17,587

As at December 31, 2013, trade receivables of $2,748 (2012 – $1,936) were impaired. The amount of provision was $1,225 as at December 31, 2013 (December 31, 2012 – $1,095). The individually impaired receivables mainly relate to parts and service invoices. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

AS AT DECEMBER 31	2013	2012
Up to 3 months	$ 358	$ 698
3 to 6 months	27	221
Over 6 months	2,362	1,017
	$ 2,748	$ 1,936

Movements in the Company's provision for impairment of trade receivables are as follows:

	2013	2012
As at January 1	$ 1,095	$ 1,774
Provisions for impairment	520	170
Amounts written off as uncollectible	(390)	(849)
As at December 31	$ 1,225	$ 1,095

The provision for impaired receivables is recognized in the consolidated statements of income within administrative expenses in the period of provision. When a balance is considered uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to administrative expenses in the consolidated statements of income.

Other receivables within trade and other receivables do not contain impaired amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

NOTE 5 Inventories

Inventory components as at December 31 (net of write-downs and provisions) are as follows:

AS AT DECEMBER 31	2013	2012
Equipment in-stock	$ 156,817	$ 175,998
Equipment on rental contract with a purchase option	38,909	47,969
Equipment on a short-term rental contract	16,278	20,419
Equipment	$ 212,004	$ 244,386
Parts	26,369	25,431
Work-in-process	4,206	4,803
Total inventory	$ 242,579	$ 274,620

The value of the Company's new and used equipment is evaluated by management throughout each year. Where appropriate, a write-down is recorded against the book value of specific pieces of equipment to ensure that inventory values reflect the lower of cost or estimated net realizable value. For the year ended December 31, 2013, the Company recorded $1,141 of equipment write-downs (December 31, 2012 – $1,299) and reversals of equipment write-downs for units sold during the year of $1,018 (December 31, 2012 – $1,208).

Throughout the year, Company management identifies slow-moving or obsolete parts inventory and estimates appropriate obsolescence provisions by aging the inventory. The changes in the inventory provision as at December 31, 2013 and December 31, 2012 are as follows:

	2013	2012
Inventory obsolescence as at January 1	$ 4,714	$ 5,397
Inventory disposed of during the year	(1,490)	(1,982)
Additional provision made during the year	1,141	1,299
Inventory obsolescence as at December 31	$ 4,365	$ 4,714

Inventory costs recognized as an expense and reflected in cost of sales in the consolidated statements of income amounted to $356,795 (December 31, 2012 – $339,252). Cost of sales also includes depreciation of equipment inventory on rent of $21,671 (December 31, 2012 – $23,159). The carrying value of equipment inventory on rent as at December 31, 2013 was $55,187 (December 31, 2012 – $68,071).

NOTE 6 Property and equipment and rental fleet

	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	MACHINERY, EQUIPMENT AND VEHICLES	COMPUTERS AND EQUIPMENT UNDER FINANCE LEASE	TOTAL PROPERTY AND EQUIPMENT	RENTAL FLEET	TOTAL PROPERTY AND EQUIPMENT AND RENTAL FLEET
Year ended December 31, 2012							
Opening net book value	$ 5,873	$ 16,371	$ 3,814	$ 5,220	$ 31,278	$ 15,564	$ 46,842
Additions	–	3,002	2,865	6,160	12,027	14,988	27,015
Disposals	–	–	(98)	(80)	(178)	(8,774)	(8,952)
Depreciation	–	(864)	(646)	(2,723)	(4,233)	(3,190)	(7,423)
Closing net book value	5,873	18,509	5,935	8,577	38,894	18,588	57,482
As at December 31, 2012							
Cost	5,873	25,707	18,217	14,582	64,379	24,224	88,603
Accumulated depreciation	–	(7,198)	(12,282)	(6,005)	(25,485)	(5,636)	(31,121)
Net book value	5,873	18,509	5,935	8,577	38,894	18,588	57,482
Year ended December 31, 2013							
Opening net book value	5,873	18,509	5,935	8,577	38,894	18,588	57,482
Additions	10,915	17,170	5,561	4,518	38,164	27,597	65,761
Disposals	(2,858)	(7,449)	(271)	(20)	(10,598)	(12,567)	(23,165)
Depreciation	–	(794)	(751)	(3,530)	(5,075)	(3,774)	(8,849)
Closing net book value	13,930	27,436	10,474	9,545	61,385	29,844	91,229
As at December 31, 2013							
Cost	13,930	34,634	22,440	19,080	90,084	36,380	126,463
Accumulated depreciation	–	(7,198)	(11,965)	(9,535)	(28,699)	(6,536)	(35,235)
Net book value	$ 13,930	$ 27,436	$ 10,474	$ 9,545	$ 61,385	$ 29,844	$ 91,229

At December 31, 2013, machinery, equipment and vehicles include $4,441 of assets under construction related to the purchase and implementation of the new Dealer Management System (December 31, 2012 – $690). Building and leasehold improvements include $15,166 of new branch construction (December 31, 2012 – $4,512) and $2,004 related to various branch renovation projects (December 31, 2012 – $582).

All trade accounts receivables related to the rental fleet at December 31, 2013 have maturities of less than one year.

The Company leases various computers and equipment under non-cancellable finance lease agreements. The lease terms are between one and eight years.

During the year ended December 31, 2013, the Company entered into a sale and leaseback arrangement on its branch in Acheson, Alberta. Gross proceeds on the sale totalled $11,400, and resulted in a gain on the sale of $1,470. As part of the arrangement, Strongco entered into a lease agreement with the purchaser to lease the branch back for a period of 15 years. In addition, with the completion of the new branch in Saint-Augustin-de-Desmaures, Quebec, the Company sold its branch in Ste-Foy, Quebec. Gross proceeds on the sale totalled $2,413, and resulted in a gain on the sale of $1,545.

NOTE 7 Income taxes

Significant components of the provision for (recovery of) income taxes are as follows:

AS AT DECEMBER 31	2013	2012
Components of current income tax expense:		
Relating to current year income taxes	$ 985	$ 2,011
Relating to prior year income taxes	(12)	(162)
Total current income tax expense	973	1,849
Components of deferred income tax expense:		
Origination and reversal of temporary differences	(311)	848
Expense of previously unrecognized tax attributes	12	–
Total deferred income tax expense	(299)	848
Total income tax expense	$ 674	$ 2,697

The tax on the profit before tax differs from that which would be obtained by applying the statutory tax rate as a result of the following:

AS AT DECEMBER 31	2013	2012
Earnings before taxes	$ 3,670	$ 10,498
Statutory tax rate	26.24%	26.25%
Provision for income taxes at statutory tax rate	$ 963	$ 2,756
Adjustments thereon for the effect of:		
Rate differences	–	38
Foreign rate differential	91	196
Permanent and other	(380)	(293)
Total income tax expense	$ 674	$ 2,697

In fiscal 2013, the Canadian statutory tax rate decreased to 26.24% due to reductions in the general federal and provincial tax rates for corporations.

The analysis of deferred income tax assets and liabilities is as follows:

DEFERRED INCOME TAX ASSETS AND LIABILITIES

AS AT DECEMBER 31	2013	2012
Eligible capital expenditures and other reserves	$ 2,568	$ 2,537
Pension	710	2,128
Loss carryforward	1,653	1,048
Deferred income tax assets	4,931	5,713
Capital and other assets	(6,547)	(5,474)
Partnership income taxes payable in future periods	(1,749)	(2,284)
Deferred income tax liabilities	(8,296)	(7,758)
Net deferred income tax liability	$ (3,365)	$ (2,045)

The above is presented in the consolidated statements of financial position as follows:

AS AT DECEMBER 31	2013	2012
Deferred income tax asset	$ –	$ 880
Deferred income tax liability	$ (3,365)	$ (2,925)

The recognition of deductible temporary differences represented by the deferred income tax asset above is dependent on taxable profits in the future that arise in the same taxation periods and jurisdictions in which those deductible temporary differences are to be utilized.

The gross movement on deferred tax is as follows:

	2013	2012
As at January 1	$ (2,045)	$ (1,024)
Other	(200)	84
Income statement charge (deferred tax)	299	(848)
Tax charges relating to components of other comprehensive income	(1,419)	(257)
As at December 31	$ (3,365)	$ (2,045)

As at December 31, 2013, deferred tax liabilities related to the subsidiaries in the United States totalled $3,206 (December 31, 2012 – $2,925).

The movement in deferred income tax assets and liabilities during the year, without taking into account offsetting, is as follows:

DEFERRED INCOME TAX LIABILITIES	PROPERTY AND EQUIPMENT AND OTHER ASSETS	PARTNERSHIP INCOME TAXES PAYABLE IN THE FOLLOWING YEAR	OTHER	TOTAL
As at December 31, 2012	$ (5,474)	$ (2,284)	$ –	$ (7,758)
Other	(357)	–	–	(357)
Charged to income statement	(716)	535	–	(181)
As at December 31, 2013	$ (6,547)	$ (1,749)	$ –	$ (8,296)

DEFERRED INCOME TAX ASSETS	ELIGIBLE CAPITAL EXPENDITURES AND OTHER RESERVES	EMPLOYEE BENEFITS	UNUSED TAX LOSSES	TOTAL
As at December 31, 2012	$ 2,537	$ 2,128	$ 1,048	$ 5,713
Other	76	–	81	157
Charged to income statement	(17)	(27)	524	480
Charged to other comprehensive income	(28)	(1,391)	–	(1,419)
As at December 31, 2013	$ 2,568	$ 710	$ 1,653	$ 4,931

DEFERRED INCOME TAX LIABILITIES	PROPERTY AND EQUIPMENT AND OTHER ASSETS	PARTNERSHIP INCOME TAXES PAYABLE IN THE FOLLOWING YEAR	OTHER	TOTAL
As at December 31, 2011	$ (4,886)	$ (2,568)	$ –	$ (7,454)
Other	126	–	–	126
Charged to income statement	(714)	284	–	(430)
As at December 31, 2012	$ (5,474)	$ (2,284)	$ –	$ (7,758)

DEFERRED INCOME TAX ASSETS	ELIGIBLE CAPITAL EXPENDITURES AND OTHER RESERVES	EMPLOYEE BENEFITS	UNUSED TAX LOSSES	TOTAL
As at December 31, 2011	$ 2,708	$ 2,732	$ 990	$ 6,430
Other	(29)	–	(13)	(42)
Charged to income statement	(142)	(347)	71	(418)
Charged to other comprehensive income	–	(257)	–	(257)
As at December 31, 2012	$ 2,537	$ 2,128	$ 1,048	$ (5,713)

Gross unused tax losses of $3,197 in the United States will expire in 2031 and 2033.

NOTE 8 Intangible asset

As at December 31, 2013 and 2012, the intangible asset is comprised of a distribution right with an indefinite life that was acquired as part of the acquisition of the Champion Road Machinery division of Volvo Group Canada Inc. ("Champion") in 2008. The distribution right does not contain an expiry date and management believes that the benefits to the Company of the distribution rights are ongoing. As a result, the distribution right has an indefinite useful life.

IMPAIRMENT TEST FOR INDEFINITE-LIFE INTANGIBLE ASSET

The distribution right intangible asset was tested for impairment at the Ontario region CGU level and it was determined that, as at December 31, 2013 and December 31, 2012, no impairment existed.

The recoverable amount of the Ontario region CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. Cash flows beyond five years are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use are as follows:

	2013	2012
Revenue growth – first four years	3% to 19%	3% to 17%
Revenue growth – terminal value	3%	3%
Gross margin percentage	17% to 18%	18% to 19%
Expense growth	3%	3%
Discount rate (pre-tax)	12% to 20%	12% to 20%

The discount rates used are pre-tax and reflect specific risks relating to relevant operations. Management determined forecasted revenue growth rates, gross margin percentage and expense growth rates based on past performance and its expectations of market development.

Discount rates represent the current market assessment of the risks specific to the Ontario region CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Ontario region CGU and is derived from the Company's weighted average cost of capital ("WACC"). A sensitivity analysis included adjusting key assumptions for a variety of scenarios and applying a range to the discount rate. Sensitivity testing was conducted as part of the 2013 annual impairment test. The recoverable amount of the Ontario group of cash generating units exceeds the carrying amount using a discount rate of 9–12% per annum and a 3% growth rate per annum for cash flows beyond that five-year period. Using a discount rate at the high end of this range, the recoverable amount approximates its carrying amount. Management believes its assumptions are reasonable.

NOTE 9 Debt

AS AT DECEMBER 31	2013	2012
Current		
Bank indebtedness (a)	$ 25,402	$ 15,307
Finance lease obligations (b)	4,612	3,495
Notes payable (c)	4,958	3,077
	$ 34,972	$ 21,879
Non-current		
Finance lease obligations (b)	$ 6,479	$ 5,581
Notes payable (c)	36,972	20,000
Total Debt	$ 78,423	$ 47,460

a) Bank indebtedness

The Company has credit facilities with banks in Canada and the United States that provide committed operating lines of credit totalling approximately $33.2 million. The Canadian bank credit facility is a three-year committed facility expiring in September 2015 and provides an operating line of credit for a maximum of $30 million. The U.S. bank operating line of credit is renewable annually in June of each year with the next renewal extended to June 2015, at the option of both the lender and the Company. The U.S. bank credit facility provides a maximum operating line of credit of US$3.0 million.

Borrowings under the operating lines of credit under both the Canadian and U.S. credit facilities are limited by standard borrowing base calculations based on accounts receivable and inventory, which are typical of such bank credit facilities. The Canadian bank operating line bears interest at rates that vary with bank prime rates or Bankers' Acceptances Rates ("BA rates"). Interest rates under the Canadian bank facility range between bank prime rate plus 2.0% and bank prime rate plus 4.0%, and between the one-month Canadian BA rates plus 3.0% and BA rates plus 5.0% depending on the ratio of total debt to tangible net worth. The bank operating line of credit in the United States bears interest at LIBOR plus 2.75%. At December 31, 2013, the effective interest rate of the operating lines of credit was 7.0% in Canada (December 31, 2012 – 6.75%) and 4.40% in the United States (December 31, 2012 – 5.70%).

Under its bank credit facilities, the Company is able to issue letters of credit up to a maximum of $5 million. Outstanding letters of credit reduce the Company's availability under its operating lines of credit. For certain customers, Strongco issues letters of credit as a guarantee of Strongco's performance on the sale of equipment to the customer. As at December 31, 2013, there were outstanding letters of credit of $10 (December 31, 2012 – $10).

The bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. As at December 31, 2013, the Company was in compliance with these covenants.

b) Finance lease obligations

As at December 31, 2013, the Company had vehicles and computer equipment under finance leases. The weighted average effective interest rate is 6.2% (December 31, 2012 – 6.3%). The future minimum annual payments, interest and balance of obligations are as follows:

AS AT DECEMBER 31	2013	2012
No later than 1 year	$ 4,612	$ 3,495
Later than 1 year but no later than 5 years	6,838	5,870
Later than 5 years	–	–
Total minimum lease payments	$ 11,450	$ 9,365
Future finance charges on finance leases	(359)	(289)
Present value of finance lease liabilities	$ 11,091	$ 9,076

The present value of financial lease liabilities is as follows:

AS AT DECEMBER 31	2013	2012
No later than 1 year	$ 4,612	$ 3,495
Later than 1 year but no later than 5 years	6,479	5,581
Later than 5 years	–	–
	$ 11,091	$ 9,076

c) Notes payable

Notes payable are comprised of the following:

AS AT DECEMBER 31	2013	2012
Promissory notes (i)	$ –	$ 497
Equipment plan notes payable – rental fleet (ii)	15,808	8,600
Term note – United States (iii)	3,531	3,462
Term note – Canada (iv)	5,021	9,723
Construction loan – Fort McMurray, Alberta (v)	11,461	–
Construction loan – Saint-Augustin-de-Desmaures, Quebec (vi)	5,303	–
Long-term portion – other liabilities (note 11 a))	806	795
	$ 41,930	$ 23,077
Current portion	4,958	3,077
Long-term portion	$ 36,972	$ 20,000

i) As part of the acquisition of CBR in 2011, the Company issued, through a wholly owned subsidiary, three promissory notes totalling US$1,863. The three promissory notes matured on February 17, 2013 and bore interest at the U.S. prime rate.

ii) In addition to equipment notes payable as described in note 12, the Company utilizes floor plan notes payable to finance its rental fleet. Payment is required at the earlier of the sale of items and per contractual schedule ranging from 12 to 24 months. Effective interest rates range from 2.81% to 6.25% with various maturity dates.

iii) The Company's bank credit facilities in the United States include a term note secured by real estate and cross-collateralized with the Company's revolving line of credit in the United States. The term note matures in May 2017 and bears interest at a rate of LIBOR plus 2.75%. Monthly payments of principal of US$13 plus accrued interest are required under the terms of the note. The Company has interest rate swap agreements in place related to the term note, which have converted the variable rate on the term loans to a fixed rate of 4.14%. The term loans and swap agreements expire in May 2017, at which point a balloon payment for the balance of the loans is due.

iv) The Company's bank credit facilities in Canada include a term note secured by real estate and cross-collateralized with the Company's revolving line of credit in Canada ("Term note – Canada"). The term note matures in June 2017 and bears interest at the bank's one-month BA rate plus 4.0%. Monthly principal payments of $120 commenced in September 2013 for a 46-month term. Prior to September 2013 the Term note – Canada bore interest at the bank's prime lending rate plus 3.0%. Monthly combined principal and interest payments of $202 commenced in September 2012 until the term note was restructured effective September 2013.

v) The Company's bank credit facilities in Canada include a construction loan facility with its bank to finance the construction of a new Fort McMurray, Alberta branch ("Construction loan – Fort McMurray, Alberta"). Under this facility, the Company was able to borrow 70% of the cost of the land and building construction costs to a maximum of $13.9 million. Interest on this term loan is at the bank's prime lending rate plus 3.0%. As at December 31, 2013, $11.5 million has been drawn against the Construction loan – Fort McMurray, Alberta.

vi) In March 2013, the Company secured an additional construction loan facility with its bank to finance the construction of a new Saint-Augustin-de-Desmaures, Quebec branch ("Construction loan – Saint-Augustin-de-Desmaures, Quebec"). Under this facility, the Company was able to borrow 70% of the cost of the land and building construction costs to a maximum of $6.0 million. Interest on this term loan is at the bank's prime lending rate plus 3.0%. As at December 31, 2013, $5.3 million has been drawn against the Construction loan – Saint-Augustin-de-Desmaures, Quebec.

d) The carrying amount and fair value of the debt are as follows:

	CARRYING AMOUNT	
AS AT DECEMBER 31	2013	2012
Bank indebtedness	$ 25,402	$ 15,307
Notes payable	41,930	23,077
Finance lease obligations	11,091	9,076
	$ 78,423	$ 46,665

	FAIR VALUE	
AS AT DECEMBER 31	2013	2012
Bank indebtedness	$ 25,402	$ 15,307
Notes payable	40,293	21,126
Finance lease obligations	11,091	9,076
	$ 76,786	$ 45,509

The fair values were determined using a discount rate equivalent to the interest charged against the relevant debt item. The fair values of finance lease obligations do not differ materially from their carrying value.

NOTE 10 Trade and other payables

AS AT DECEMBER 31	2013	2012
Trade payables	$ 9,046	$ 10,271
Accrued liabilities	23,679	36,993
	$ 32,725	$ 47,264

NOTE 11 Provision for other liabilities

	EQUIPMENT BUY-BACK OBLIGATION (a)	LEGAL MATTERS (b)	TOTAL
As at January 1, 2013	$ 1,129	$ –	$ 1,129
Charged (credited) to the income statement			
Additional provision	114	–	114
Unused amounts reversed	(8)	–	(8)
Used during the year	(253)	–	(253)
As at December 31, 2013	$ 982	$ –	$ 982
Current portion	177	–	177
Long-term portion	$ 805	$ –	$ 805

	EQUIPMENT BUY-BACK OBLIGATION (a)	LEGAL MATTERS (b)	TOTAL
As at January 1, 2012	$ 1,115	$ 83	$ 1,198
Charged (credited) to the income statement			
Additional provision	112	–	112
Unused amounts reversed	(77)	(83)	(160)
Used during the year	(21)	–	(21)
As at December 31, 2012	$ 1,129	$ –	$ 1,129
Current portion	334	–	334
Long-term portion	$ 795	$ –	$ 795

a) Equipment buy-back obligation

The Company has agreed to buy back equipment from certain customers at the option of the customer for a specified price at a future date ("buy-back contracts"). These contracts are subject to certain conditions being met by the customer and range in term from three to 10 years. As at December 31, 2013, the total obligation under these contracts was $11,638 (December 31, 2012 – $13,589). The Company's maximum potential losses pursuant to the majority of these buy-back contracts are limited, under an agreement with a third party, to 10% of the original sale amounts. A reserve of $982 (December 31, 2012 – $1,129) has been accrued in the Company's accounts with respect to these commitments. The long-term portion of the reserve related to these contracts of $805 (December 31, 2012 – $795) was classified as long-term liabilities and included in notes payable on the consolidated statements of financial position.

b) Legal matters

The Company has set up provisions for certain legal matters based on management's assessment and support from external legal counsel. As at December 31, 2013, these provisions totalled $nil (December 31, 2012 – $nil).

NOTE 12 Equipment notes payable

The Company has lines of credit available totalling approximately $301 million from various non-bank equipment lenders in Canada and the United States, which are used to finance equipment inventory (December 31, 2012 – $324 million). As at December 31, 2013, there was approximately $193 million borrowed on these equipment finance lines (December 31, 2012 – $209 million).

Typically, these equipment notes are interest-free for periods up to 12 months from the date of financing, after which they bear interest in Canada at rates ranging from 4.25% over the one-month BA rate, from 4.50% to 5.25% over the three-month BA rate, from 2.0% to 4.25% over the prime rate of a Canadian chartered bank, from 2.65% to 4.25% over the one-month LIBOR rate, prime plus 3.0%, and from 3.50% to 5.50% over the 90-day LIBOR rate in the United States. As collateral for these equipment notes, the Company has provided liens on the specific inventory financed and any related accounts receivable. In the normal course of business, these liens cover substantially all of the inventories. Monthly principal repayments equal to 3.0% of the original principal balance of the note commence 12 months from the date of financing and the remaining balance is due in full at the earlier of 24 months after financing or when the financed equipment is sold. While financed equipment is out on rent, monthly curtailments are required equal to the greater of 70% of the rental revenue and 2.5% of the original value of the note. Any remaining balance after 24 months, which is due in full, is normally refinanced with the lender over an additional period of up to 24 months. All of the Company's equipment notes facilities are renewable annually, at the option of the lender.

Certain of the Company's equipment finance credit agreements contain restrictive financial covenants, including requiring the Company to remain in compliance with the financial covenants under all of its other lending agreements ("cross default provisions"). As at December 31, 2013, the Company was in compliance with these covenants.

The equipment notes are payable on demand and therefore have been classified as current liabilities. The carrying amount of equipment notes payable is as follows:

AS AT DECEMBER 31	2013	2012
Equipment notes payable – non-interest-bearing	$ 29,079	$ 37,566
Equipment notes payable – interest-bearing	163,899	171,491
	$ 192,978	$ 209,057

Due to the short-term nature of equipment notes payable, management has determined that the fair value does not differ materially from the carrying value.

NOTE 13 Employee benefit obligations

AS AT DECEMBER 31	2013	2012
Obligations in the consolidated statements of financial position for:		
Pension benefits	$ 2,799	$ 8,106
Dental, health and other post-employment benefits	1,606	1,695
	$ 4,405	$ 9,801
Charges to the consolidated statements of income for:		
Pension benefits	$ 1,903	$ 1,908
Dental, health and other post-employment benefits	43	46
	$ 1,946	$ 1,954

Total cash payments for employee future benefits for 2013, consisting of cash contributed by the Company to its funded defined benefit plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its funded defined contribution plan, were $2,889 (2012 – $3,264).

The history and experience adjustments in respect of post-employment benefit obligations are as follows:

AS AT DECEMBER 31	2013	2012
Present value of benefit obligations	$ 40,551	$ 40,269
Fair value of plan assets	36,146	30,468
Deficit in the plan	4,405	9,801
Experience adjustments in plan liabilities – gains (losses)		
Plan experience	$ (304)	$ (770)
Changes in demographic assumptions	(1,624)	–
Changes in financial assumptions	2,997	(51)
Experience adjustments in plan assets – gains	$ 4,242	$ 2,251

a) Pension benefits

The Company has a number of funded and unfunded benefit plans that provide pension, as well as other retirement benefits, to some of its employees.

i) Defined contribution plans

The Company maintains a defined contribution plan available only to certain employees (approximately 8% of the workforce (2012 – 8%)). In 2013, the Company's contributions were $209 (2012 – $202). The Company also maintains a group retirement savings plan (RSP/LIRA) available only to certain employees (approximately 15% of the workforce (2012 – 11%)) under the terms of a collective bargaining agreement. In 2013, the Company's contributions were $254 (2012 – $185).

The Company maintains a defined contribution retirement savings program available only to certain executive officers ("DCRSP plan"), which has been in effect since January 2006. The expense related to the DCRSP plan for the year ended December 31, 2013 was $213 (2012 – $191).

The Company maintains a defined contribution retirement savings program available only to certain management employees ("DCRSP – GM plan"), which has been in effect since June 2007. The expense related to the DCRSP – GM plan for the year ended December 31, 2013 was $54 (2012 – $97).

The Company maintains a defined contribution retirement savings program available only to employees of CBR ("401(k) plan"), which has been in effect since the Company's acquisition of CBR in February 2011. The expense related to the 401(k) plan for the year ended December 31, 2013 was $43 (2012 – $46). Employees receiving the 401(k) benefit made up approximately 10% of the workforce in 2013 (2012 – 10%).

ii) Defined benefit pension plans

Risks associated with these plans are similar to those of typical benefit plans, including market risk, interest rate risk, liquidity risk, credit risk and longevity risk, etc. There are no significant risks associated with this plan that could be deemed unusual or require special disclosure.

The amounts recognized in the consolidated statements of financial position are determined as follows:

AS AT DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Fair value of plan assets	$ 34,975	$ 1,171	$ 29,380	$ 1,088
Present value of funded obligations	37,182	1,763	36,744	1,830
Funded status of plan – deficit	$ 2,207	$ 592	$ 7,364	$ 742
Impact of asset ceiling	–	–	–	–
Accrued benefit liability	$ 2,207	$ 592	$ 7,364	$ 742

The movement in the defined benefit obligation over the year is as follows:

YEAR ENDED DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Accrued benefit obligation as at January 1	$ 36,744	$ 1,830	$ 35,113	$ 1,862
Current service cost	2,152	–	1,971	–
Interest cost	1,700	65	1,622	71
Benefits paid	(2,412)	(170)	(2,114)	(170)
Actuarial (gain) loss				
Plan experience	432	37	152	33
Changes in demographic assumptions	1,403	67	–	–
Changes in financial assumptions	(2,837)	(66)	–	34
Accrued benefit obligation as at December 31	$ 37,182	$ 1,763	$ 36,744	$ 1,830

The movement in the fair value of plan assets over the year is as follows:

YEAR ENDED DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Fair value of plan assets as at January 1	$ 29,380	$ 1,088	$ 25,245	$ 1,077
Actual return on plan assets	5,434	181	3,321	124
Employer contributions	1,958	104	2,395	89
Employee contributions	816	–	734	–
Benefits paid	(2,412)	(170)	(2,114)	(170)
Administration costs	(201)	(32)	(201)	(32)
Fair value of plan assets as at December 31	$ 34,975	$ 1,171	$ 29,380	$ 1,088

Plan assets consist of:

AS AT DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Asset category	%	%	%	%
Canadian equity	18.8	22.0	40.3	39.6
Non-domestic equity	27.6	32.9	27.6	27.1
Bonds	41.2	31.3	31.3	30.7
REITs/infrastructure/utilities	5.4	6.2	–	–
Mortgages	6.4	7.3	–	–
Cash and money market	0.6	0.3	0.8	2.6
	100.0	100.0	100.0	100.0

The amounts recognized in the consolidated statements of income and comprehensive income are as follows:

CONSOLIDATED STATEMENTS OF INCOME YEAR ENDED DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Employer current service costs	$ (1,336)	$ –	$ (1,236)	$ –
Interest on net defined benefit asset (liability)	(366)	(26)	(468)	(32)
Administration costs	(201)	(33)	(201)	(31)
Sub total	$ (1,903)	$ (59)	$ (1,905)	$ (63)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME				
Gain (loss) for the year on obligations	$ 1,002	$ (38)	$ (152)	$ (67)
Gain for the year on assets	4,100	142	2,167	84
Sub total	5,102	104	2,015	17
Total	$ 3,199	$ 45	$ 110	$ (46)

Expected employer contributions to the defined benefit employee pension plan for the year ending December 31, 2014 are $3,027 (2013 – $2,090).

Expected employer contributions to the defined benefit executive pension plan for the year ending December 31, 2014 are $134 (2013 – $108).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as of December 31 of each year. For the employee pension plan, the most recent actuarial valuation for funding purposes was performed as of August 31, 2013 and the next required valuation is due no later than August 31, 2014.

For the executive pension plan, the most recent actuarial valuation for funding purposes was performed as at June 30, 2012 and the next required valuation is due no later than June 30, 2015.

The principal actuarial assumptions used are as follows:

AS AT DECEMBER 31	2013		2012	
	EMPLOYEE PLAN	EXECUTIVE PLAN	EMPLOYEE PLAN	EXECUTIVE PLAN
Discount rate	5.00%	4.25%	4.50%	3.75%
Average life expectancy				
> Male aged 45	41.8	N/A	39.3	N/A
> Female aged 45	44.2	N/A	41.4	N/A
> Male aged 65	22.5	22.5	19.7	19.7
> Female aged 65	24.5	24.5	22.1	22.1
Duration of plan in years	16.7	7.8	16.7	8.2

The sensitivity of the overall pension liability to changes in assumptions is as follows:

	VALUATION ASSUMPTION	1% CHANGE	CHANGE IN OVERALL LIABILITY
Employee plan			
Discount rate	5.00%	6.00%	(4,641)
Salary growth rate	3.00%	4.00%	785
Executive plan			
Discount rate	4.25%	5.25%	(119)

b) Post-employment health and dental benefits and retirement allowance

The Company has other post-employment benefit obligations, which include an unfunded retirement allowance and a non-contributory dental and health-care plan.

The amounts recognized in the consolidated statement of financial position are determined as follows:

AS AT DECEMBER 31	2013	2012
Present value of obligation	$ 1,606	$ 1,695
Accrued benefit obligation in the consolidated statement of financial position	$ 1,606	$ 1,695

The movement in the accrued benefit obligation over the year is as follows:

AS AT DECEMBER 31	2013	2012
Accrued benefit obligations as at January 1	$ 1,695	$ 1,107
Current service cost	–	–
Interest cost	70	46
Benefits paid	(54)	(59)
Actuarial (gain) loss		
Plan experience	(165)	584
Changes in demographic assumptions	154	–
Changes in financial assumptions	(94)	17
Accrued benefit obligations as at December 31	$ 1,606	$ 1,695

The assumed initial health-care cost trend rate is 6.75%, declining by 0.25% per annum to 5% per annum in 2021 and thereafter. The assumed dental cost rate is 4% per annum.

Assumed health-care and dental-care cost trend rates have a significant effect on the amounts reported for the health-care and dental-care plans. A 1% change in assumed health- and dental-care cost trend rates would have the following effects for 2013:

	INCREASE	DECREASE
Accrued benefit obligations as at December 31, 2013 (at 4.75%)	$ 198	$ (163)

NOTE 14 Shareholders' equity

Authorized:
Unlimited number of shares

Issued:
As at December 31, 2013, a total of 13,221,719 shares (December 31, 2012 – 13,128,719) with a stated value of $65,324 (December 31, 2012 – $64,898) were issued and outstanding.

On August 11, 2013, the Company issued 93,000 common shares at a value of $2.98 per share related to the exercise of certain employee stock options.

NOTE 15 Segment information

Management has determined that the Company has one reportable segment, Equipment Distribution, based on reports reviewed by the President and Chief Executive Officer, with appropriate aggregation. This business sells and rents new and used equipment and provides after-sale product support (parts and service) to customers that operate in infrastructure, construction, mining, oil and gas exploration, forestry and industrial markets.

A breakdown of revenue from the Equipment Distribution segment is as follows:

YEAR ENDED DECEMBER 31	2013	2012
Analysis of revenue by category:		
Equipment sales	$ 321,301	$ 305,505
Equipment rental	31,302	32,285
Product support	133,118	126,391
Total revenue	$ 485,721	$ 464,181

Geographic information for the year ended and as at:

DECEMBER 31, 2013	CANADA	US	TOTAL
Revenue	$ 428,960	$ 56,761	$ 485,721
Property and equipment	56,737	4,648	61,385
Rental fleet	7,236	22,608	29,844
Intangible asset	1,800	–	1,800
Other non-current assets other than deferred income tax assets	$ 155	$ –	$ 155

DECEMBER 31, 2012	CANADA	US	TOTAL
Revenue	$ 408,145	$ 56,036	$ 464,181
Property and equipment	34,382	4,512	38,894
Rental fleet	–	18,588	18,588
Intangible asset	1,800	–	1,800
Other non-current assets other than deferred income tax assets	$ 291	$ –	$ 291

NOTE 16 Other income

Other income for the year ended December 31, 2013 of $3,359 (December 31, 2012 – $1,828) included gains from the sale of property and equipment, gains relating to the reversal of certain legal and other provisions no longer required, foreign currency gains, gains on mark-to-market adjustments for foreign currency swaps and interest rate swaps, and miscellaneous commission income from suppliers.

Other income for the year ended December 31, 2013 includes the gain on the sale and leaseback of the Company's Acheson, Alberta facility ($1,470) and the gain on the sale of the Ste-Foy, Quebec branch ($1,545) (note 6). There were no disposals of branches in 2012.

NOTE 17 Expenses by nature

YEAR ENDED DECEMBER 31	2013	2012
Changes in inventories of equipment, parts and work-in-process	$ 379,965	$ 351,280
Raw materials and consumables used	689	934
Depreciation	5,334	5,021
Utilities	1,607	1,545
Operating lease expenses	7,576	7,270
Transportation expenses	4,429	4,288
Advertising expenses	1,217	1,043
Salaries, wages and commissions	63,417	61,184
Telephone, fax and office supplies	2,004	2,403
Other	8,359	13,311
Total cost of sales, administration, distribution and selling expenses	$ 474,597	$ 448,279

Salaries, wages and commission expense comprises the following:

YEAR ENDED DECEMBER 31	2013	2012
Salaries and wages	$ 61,306	$ 57,854
Commissions	1,736	2,095
Employee future benefits	375	1,235
	$ 63,417	$ 61,184

NOTE 18 Interest expense

YEAR ENDED DECEMBER 31	2013	2012
Bank indebtedness	$ 1,060	$ 581
Equipment notes payable – interest-bearing	9,568	7,195
Notes payable	145	210
Finance lease obligations	41	26
	$ 10,814	$ 8,012

NOTE 19 Earnings per share

Basic earnings per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares.

AS AT DECEMBER 31	2013	2012
Weighted average number of shares for basic earnings per share calculation	13,164,900	13,128,719
Effect of dilutive options outstanding	19,378	55,756
Weighted average number of shares for dilutive earnings per share calculation	13,184,278	13,184,475

On August 11, 2013, the Company issued 93,000 common shares at a value of $2.98 per share related to the exercise of certain employee stock options.

The computation of dilutive options outstanding only includes those options having exercise prices below the average market price of the shares during the period. At December 31, 2013, dilutive options totalled 19,378 shares (December 31, 2012 – 55,756 shares) and anti-dilutive options totalled 413,045 shares (December 31, 2012 – 153,333 shares).

NOTE 20 Share-based compensation

On May 26, 2011, the shareholders of the Company approved a stock option plan (the "Plan"), under which options may be granted to any officer or member of senior management of the Company by the Directors. Options are non-assignable and non-transferrable. The aggregate number of shares reserved for issuance upon the exercise of all options granted under the Plan shall not exceed 850,000. The strike price for an option is equal to the volume-weighted average trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date that the option was granted by the Directors of the Company. Each option holder will have 10 years from the date of grant to exercise the options. Options vest 33 and ⅓% on each of the fourth, fifth and sixth anniversaries of the date of grant. As of December 31, 2013, no options have been granted under the Plan.

On August 11, 2008, the Company issued irrevocable options to the then newly appointed Chief Executive Officer to purchase 100,000 units in the capital of the Company. These options have an exercise price of $2.98 per unit, which is equal to the average trading price of the Company's units over the five days immediately following August 11, 2008. Fifty percent of the options vested and became exercisable 12 months from the grant date and the balance vested and became exercisable 24 months from the grant date. The options expire five years from the issue date, on August 11, 2013. The options were approved by the shareholders at the annual meeting on April 30, 2009.

On October 28, 2009, the Company issued irrevocable options to certain members of senior management to purchase 375,000 units of the Company. These options have an exercise price of $4.50 per unit, which is equal to the average trading price of the Company's units over the five days immediately preceding October 28, 2009. A third of the options vest and become exercisable after 36 months from the grant date, a third of the options vest and become exercisable after 48 months from the grant date and the balance vest and become exercisable after 60 months from the grant date. The options expire seven years from the issue date, on October 28, 2016. The options were approved by the shareholders at the annual meeting of the shareholders on May 14, 2010.

On December 16, 2010, the Company issued irrevocable options to certain members of senior management to purchase 15,000 shares of the Company. These options have an exercise price of $3.71 per share, which is equal to the average trading price of the Company's shares over the five days immediately preceding December 16, 2011. A third of the options vest and become exercisable after 36 months from the grant date, a third of the options vest and become exercisable after 48 months from the grant date and the balance vest and become exercisable after 60 months from the grant date. The options expire seven years from the issue date, on December 16, 2017. The options were approved by the shareholders at the annual meeting of the shareholders on May 26, 2011.

On March 21, 2012, as part of Strongco's Long-Term Incentive Plan, the Company granted irrevocable options to certain members of senior management to purchase 74,182 shares of the Company. These options have an exercise price of $6.20 per share, which is equal to the average trading price of the Company's units over the five days immediately preceding March 21, 2012. A third of the options vest and become exercisable after 36 months from the grant date, a third of the options vest and become exercisable after 48 months from the grant date and the balance vest and become exercisable after 60 months from the grant date. The options expire seven years from the issue date, on March 21, 2019.

On March 19, 2013, as part of Strongco's Long-Term Incentive Plan, the Company granted irrevocable options to certain members of senior management to purchase 88,714 shares of the Company. These options have an exercise price of $4.92 per share, which is equal to the average trading price of the Company's units over the five days immediately preceding March 19, 2013. A third of the options vest and become exercisable after 36 months from the grant date, a third of the options vest and become exercisable after 48 months from the grant date and the balance vest and become exercisable after 60 months from the grant date. The options expire seven years from the issue date, on March 19, 2020.

The stock-based compensation expense of these options is based upon the estimated fair value of the options at the grant date, which was determined using the Black-Scholes option pricing model, amortized over the vesting period of the options. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The dividend rate assumption used in the Black-Scholes option pricing model is nil% for all stock option grants. The following assumptions were used in determining the fair value of the options using the Black-Scholes model:

DATE OF GRANT	RISK-FREE INTEREST RATE	OPTION LIFE	EXPECTED VOLATILITY	ESTIMATED FORFEITURE RATE
May 26, 2011	3%	5 years	60%	5%
October 28, 2009	3%	7 years	64%	5%
December 16, 2010	3%	7 years	64%	5%
March 21, 2012	3%	7 years	52% to 58%	5%
March 19, 2013	1.55%	7 years	50%	5%

At December 31, 2013, the weighted average remaining contractual life of the outstanding stock options was 20.0 months (2012 – 41.1) and the weighted average exercise price was $4.87 (2012 – $4.37). During the year, 11,851 units were forfeited, at an average strike price of $3.77. A summary of the activity in the year is as follows:

AS AT DECEMBER 31	2013		2012	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding – beginning of year	390,278	$ 4.37	460,000	$ 4.14
Granted	88,714	4.92	74,182	6.20
Exercised	(93,000)	2.98	–	–
Forfeited	(11,851)	3.77	(143,904)	4.66
Options outstanding – end of year	374,141	$ 4.87	390,278	$ 4.37
Options vested and exercisable – end of year	153,333	$ 4.50	176,667	$ 3.64

During the year, restricted share units ("RSUs") totalling 47,065 were granted to certain members of senior management under the Company's Long-Term Incentive Plan. The RSUs vest fully on the third anniversary of the date of grant, and can be settled by the Company either through the purchase of common shares on the open market, or in cash. At December 31, 2013, RSUs totalling 80,965 were granted and outstanding (2012 – 44,887), with a weighted average unit value of $5.50 (2012 – $6.20).

AS AT DECEMBER 31	2013	2012
	NUMBER OF RSUs	NUMBER OF RSUs
RSUs outstanding – beginning of year	36,474	–
Granted	47,065	44,887
Exercised	–	–
Forfeited	(2,574)	(8,413)
RSUs outstanding – end of year	80,965	36,474

Stock-based compensation expense resulting from the stock options and RSUs is $316 (2012 – $209).

NOTE 21 Contingencies, commitments and guarantees

a) In the ordinary course of business, the Company may be contingently liable for litigation. On an ongoing basis, the Company assesses the likelihood of any adverse judgments or outcomes, as well as potential ranges of probable costs or losses. A determination of the provision required, if any, is made after analysis of each individual matter. The required provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy dealing with these matters.

A statement of claim has been filed naming a former division of the Company as one of several defendants in proceedings under the Superior Court of Quebec. The action claims errors and omissions in the contractual execution of work entrusted to the defendants and names the Company as jointly and severally liable for damages of approximately $5.9 million plus interest. Management believes that the Company has a strong defence against this claim and that it is without merit. The Company's insurer has provided conditional coverage for this claim.

A statement of claim has been filed naming a former division of the Company as one of several defendants in proceedings under the Court of Queen's Bench of Manitoba. The action claims errors and omissions in the contractual execution of work entrusted to the defendants and names the Company as jointly and severally liable for damages of approximately $4.8 million plus interest. Management believes that the Company has a strong defence against this claim and that it is without merit. The Company's insurer has provided conditional coverage for this claim.

b) The Company has entered into various operating leases for its premises, certain vehicles, furniture and fixtures, and equipment. The lease terms are between one and eight years, and the majority of lease agreements are renewable at the end of the lease period at market rates. Approximate future minimum annual payments under these operating leases are as follows:

AS AT DECEMBER 31	2013	2012
No later than 1 year	$ 6,631	$ 5,208
Later than 1 year but no later than 5 years	18,899	14,485
Later than 5 years	14,482	4,645
	$ 40,012	$ 24,338

c) The Company has provided a guarantee of lease payments under the assignment of a property lease, which expires January 31, 2014. Total lease payments from January 1, 2014 to January 31, 2014 are $12 (December 31, 2012 – $161).

NOTE 22 Categories of financial assets and liabilities

Financial instruments are classified into one of five categories: assets and liabilities held at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

AS AT DECEMBER 31	2013	2012
Derivatives held at fair value	$ (62)	$ 151
Loans and receivables (1)	48,762	44,376
Liabilities (2)	$ 303,320	$ 302,986

(1) Includes trade and other receivables
(2) Includes bank indebtedness, trade and other payables, finance lease obligations, equipment and other notes payable (excludes Provision)

FAIR VALUE ESTIMATION

The Company applies the following fair value measurement hierarchy to assets and liabilities in the consolidated statement of financial position that are carried at fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

This fair value measurement hierarchy applies to the Company's derivative instruments, consisting of foreign exchange forward contracts and interest rate swap contracts, which are all considered Level 2 inputs. The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

The fair value of the Company's equipment notes payable, finance lease obligations, notes payable, foreign exchange forward contracts and interest rate swap contracts as at December 31, 2013 and 2012 are as follows:

	DECEMBER 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3
Liabilities for which fair values are disclosed				
Equipment notes payable	$ 192,978	$ –	$ 192,978	$ –
Finance lease obligations	11,091	–	11,091	–
Notes payable (excludes Provision)	41,124	–	41,124	–
Liabilities measured at fair value				
Foreign exchange forward contracts	63	–	63	–
Interest rate swap contracts	(1)	–	(1)	–

	DECEMBER 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3
Liabilities for which fair values are disclosed				
Equipment notes payable	$ 209,057	$ –	$ 209,057	$ –
Finance lease obligations	9,076	–	9,076	–
Notes payable (excludes Provision)	22,282	–	22,282	–
Liabilities measured at fair value				
Foreign exchange forward contracts	(2)	–	(2)	–
Interest rate swap contracts	(149)	–	(149)	–

NOTE 23 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not purchase any derivative financial instruments for speculative purposes.

Financial risk management is the responsibility of the corporate finance function. The Company's operations, along with the corporate finance function, identify, evaluate and, where appropriate, hedge financial risks. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

MARKET RISK

a) Foreign exchange risk

The Company operates in Canada and the Northeastern United States. Foreign exchange risk arises because of varying currency exposure, primarily to the US dollar, and impacts receivables or payables on transactions denominated in foreign currencies, which vary due to changes in exchange rates (transaction exposures). The consolidated statements of financial position includes US dollar denominated trade payables and trade receivables. These amounts are translated into Canadian dollars at each year end, with resulting gains and losses recorded in the consolidated statements of income.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures. The Company manages this risk by entering into foreign exchange forward contracts on a transaction-specific basis. The Company does not currently hedge translation exposures. Substantially all of the Company's purchases are translated into Canadian dollars at the date of receipt.

As at December 31, 2013, the Company carried $29,146 in US dollar denominated liabilities net of US dollar denominated trade receivables (December 31, 2012 – $32,599). A $0.10 change in the exchange rate between the Canadian and US currencies would have an effect of approximately $2,915 on net income for the year ended December 31, 2013 (December 31, 2012 – $3,249).

Foreign exchange forward contracts

On a transaction-specific basis, the Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange.

The Company enters into foreign exchange forward contracts to reduce the impact of currency fluctuations on the cost of certain pieces of equipment ordered for future delivery to customers. The Company has a line for foreign exchange forward contracts ("FX line") totalling US$18.4 million, as part of its Canadian facility, available to hedge foreign currency exposure. Under the FX Line, Strongco can purchase foreign exchange forward contracts up to a maximum of approximately US$18.4 million with terms not to expire beyond the remaining term of the operating line of credit.

As at December 31, 2013, the Company had outstanding foreign exchange forward contracts under this facility totalling US$2.8 million at an average exchange rate of $1.0436 Canadian for each US$1.00 with settlement dates between January 1, 2014 and the end of July 2014 (December 31, 2012 – US$1.9 million). Foreign currency forward contracts are classified as a derivative financial instrument and are recorded at fair value using observable inputs. The fair value of foreign currency forward contracts is based on the settlement rates on those contracts compared to the current forward exchange rate. Strongco has not adopted hedge accounting for these foreign currency forward contracts and, accordingly, the change in the fair value of the contracts is recorded in Other Income. As at December 31, 2013, the unrealized gain associated with foreign currency forward contracts is $63 (December 31, 2012 – unrealized loss of $2).

Interest rate swap contracts

In September 2012, the Company secured a Swap Facility with its bank which allows the Company to swap the floating interest rate component (the BA rates) on up to approximately $100 million of the Company's debt for a five-year fixed swap rate of interest. The value relating to outstanding interest rate swaps at December 31, 2013 totalled $30.0 million. Their interest rates range from 1.51% to 1.615%, with maturity from September 2016 to June 2017. The interest rate swap is classified as a derivative financial instrument and is recorded at fair value using observable market information. Interest rate swaps are valued using the notional amount of the interest rate swaps multiplied by the observable inputs of time to maturity, interest rates and credit spreads. Strongco has not adopted hedge accounting for the interest rate swap and, accordingly, the change in the fair value of the swap is recorded in interest expense. As at December 31, 2013, the unrealized loss associated with the swap is $1 (December 31, 2012 – $149).

The Company has interest rate swap agreements in place related to the term loans secured by real estate in the United States which have converted the variable rate on the term loans to a fixed rate of 4.14%. The term loans and swap agreements expire in May 2017, at which point a balloon payment for the balance of the loans is due. Strongco has not adopted hedge accounting for the interest rate swap and, accordingly, the change in the fair value of the swap is recorded in other income.

b) Interest rate risk

Strongco's interest rate risk primarily arises from its floating rate debt, in particular its bank operating line of credit and its interest-bearing equipment notes payable. As at December 31, 2013, a portion of the Company's interest-bearing debt is subject to movements in floating interest rates.

The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on the consolidated statement of income of a defined interest rate shift.

As at December 31, 2013, the Company had $197,678 in interest-bearing floating rate debt (December 31, 2012 – $170,895). A 1.0% change in interest rates would have an effect of approximately $1,977 on net income for the year ended December 31, 2013 (December 31, 2012 – $1,709).

CREDIT RISK

Credit risk arises from cash and cash equivalents held with banks and financial institutions, derivative financial instruments (foreign exchange forward contracts and interest rate swap contracts), as well as credit exposure to customers, including outstanding trade receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company's management continuously performs credit evaluations of customers and limits the amount of credit extended to customers as appropriate. The Company is, however, exposed to credit risk with respect to trade receivables and maintains provisions for possible credit losses based upon historical experience and known circumstances. In certain circumstances, the Company registers liens, priority agreements and other security documents to further reduce the risk of credit losses. From time to time the Company requires deposits before certain services are provided or contracts undertaken. As at December 31, 2013, the Company held customer deposits of $768 (December 31, 2012 – $828).

LIQUIDITY RISK

Liquidity risk arises through an excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient availability of funding from committed credit facilities. As at December 31, 2013, the Company had undrawn lines of credit available to it of $7.8 million (December 31, 2012 – $7.2 million).

The maturity of the carrying value of the Company's non-derivative debt and contractual obligations relating to outstanding derivative instruments as at December 31, 2013 is as follows:

	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	TOTAL
Non-derivatives			
Bank indebtedness	$ 25,402	$ –	$ 25,402
Equipment notes	192,978	–	192,978
Notes payable	4,958	36,972	41,930
Derivatives			
Foreign exchange forward contracts	$ 2,968	$ –	$ 2,968
Interest rate swap contracts	–	33,553	33,553

NOTE 24 Management of capital

The Company defines capital that it manages as shareholders' equity and total managed debt instruments consisting of equipment notes payable (both interest-bearing and non-interest-bearing) and other interest-bearing debt.

The Company's objectives when managing capital are to ensure that the Company has adequate financial resources to maintain liquidity necessary to fund its operations and provide returns to its shareholders.

Equipment notes payable comprise a significant portion of the Company's capital. Increases and decreases in equipment notes payable can be significant from period to period and are dependent upon multiple factors, including: availability of supply from manufacturers, seasonal market conditions, local market conditions and date of receipt of inventories from the manufacturer.

The Company manages its capital structure in a manner to ensure that its ratio of total managed debt instruments to shareholders' equity does not exceed 4.5.

As at December 31, 2013 and 2012, the above capital management criteria can be illustrated as follows:

AS AT DECEMBER 31	2013	2012
Interest-bearing debt	$ 25,402	$ 15,307
Equipment notes payable	192,978	209,057
Other debt	41,930	22,282
Total managed debt instruments	$ 260,310	$ 246,646
Shareholders' equity	$ 73,130	$ 64,701
Ratio of total managed debt instruments to shareholders' equity	3.6	3.8

The Company has credit facilities with a Canadian bank and a U.S. bank, which provides an operating line of credit (refer to note 9).

The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. In particular, the facility contains covenants that require the Company to maintain a minimum ratio of total current assets to current liabilities (Current Ratio covenant) of 1.1:1, a minimum tangible net worth (TNW covenant) of $54 million, a maximum ratio of total debt to tangible net worth ("Debt to TNW Ratio") covenant of 4.5:1 and a minimum ratio of earnings before interest, taxes, depreciation and amortization minus capital expenditures to total interest ("Debt Service Coverage Ratio") covenant of 1.3:1. For the purposes of calculating covenants under the credit facility, debt is defined as total liabilities less future income tax amounts and subordinated debt. The Debt Service Coverage Ratio is measured at the end of each quarter on a trailing 12-month basis. Other covenants are measured as at the end of each quarter.

The Company was in compliance with all covenants under its bank credit facility and all equipment finance lines as at December 31, 2013.

NOTE 25 Key management compensation

Key management is comprised of the President and Chief Executive Officer, Chief Financial Officer, external directors and vice-presidents of the Company. The compensation paid or payable to key management for employee services is shown below:

YEAR ENDED DECEMBER 31	2013	2012
Salaries and short-term benefits	$ 1,914	$ 2,722
Employee future benefits	150	111
Share-based payments	294	202
	$ 2,358	$ 3,035

NOTE 26 Changes in non-cash working capital

The components of the changes in non-cash working capital are detailed below:

YEAR ENDED DECEMBER 31	2013	2012
Changes in working capital		
Trade and other receivables	$ (3,942)	$ (1,755)
Inventories	11,654	(88,081)
Prepaid expense and other deposits	(9)	(545)
Other assets	136	(146)
Trade and other payables	(10,199)	9,749
Provision for other liabilities	(157)	(69)
Deferred revenue and customer deposits	118	294
Equipment notes payable	(17,226)	48,952
	$ (19,625)	$ (31,601)

NOTE 27 Seasonality

Historically, the Company's revenue and earnings throughout the year follow a weather related pattern of seasonality. Typically, the first quarter is the weakest quarter as construction and infrastructure activity is constrained in the winter months. This is followed by a strong increase in the second quarter as construction and other contracts begin to be put out for bid and companies begin to prepare for summer activity. The third quarter generally tends to be slower from an equipment sales standpoint, which is partially offset by continued strength in equipment rentals and customer support (parts and service) activities. Fourth quarter activity generally strengthens as companies make year-end capital spending decisions in addition to the exercise of purchase options on equipment that has previously gone out on rental contracts.

NOTE 28 Economic relationship

The Company sells and services equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with Volvo Construction Equipment North America, Inc. The distribution and servicing of Volvo products account for a substantial portion of the Company's operations. The Company has had an ongoing relationship with Volvo since 1991.

FIVE-YEAR FINANCIAL SUMMARY

Financial Statistics

($ MILLIONS, EXCEPT PER SHARE AMOUNTS AND PER UNIT AMOUNTS)	2013	2012	2011	2010	2009
		(note 2)			(note 1)
Operating results					
Revenue	$ 485.7	$ 464.2	$ 423.2	$ 294.7	$ 291.8
Gross profit	88.9	86.5	80.5	56.7	59.9
Administrative, distribution and selling expense	77.7	70.6	64.8	53.1	55.8
Reorganization expense	–	–	–	0.5	–
Other income	(3.4)	(1.8)	(1.2)	(0.7)	(1.8)
Interest expense	10.8	8.0	5.8	4.8	4.4
Earnings (loss) from continuing operations before income taxes	3.7	9.7	11.1	(0.9)	1.5
Loss from discontinued operations	–	–	–	–	(0.7)
Net income (loss)	3.0	7.0	9.9	(0.9)	–
					(note 1)
Balance sheet data					
Property and equipment	$ 61.4	$ 38.9	$ 31.3	$ 15.8	$ 15.9
Total assets	386.7	382.8	304.6	215.2	190.8
Bank indebtedness	25.4	15.3	11.0	12.4	10.0
Equipment notes payable	193.0	209.1	160.4	118.2	104.8
Notes payable	41.1	22.3	19.8	1.2	2.3
Total liabilities	313.5	318.1	248.0	170.2	145.3
Shareholders' equity	73.1	64.7	56.6	45.0	45.5
Share trading data					
Price					
High	$ 5.88	$ 6.47	$ 6.24	$ 4.35	$ 4.80
Low	$ 3.31	$ 4.45	$ 3.55	$ 2.81	$ 1.15
Close	$ 4.10	$ 4.65	$ 5.25	$ 3.56	$ 3.66
					(note 1)
Per share data					
Shares outstanding – basic	13,221,719	13,128,719	13,049,126	11,053,608	10,508,719
Shares outstanding – diluted	13,184,278	13,184,475	13,088,968	11,053,608	10,508,719
Earnings (loss) per share/unit – basic and diluted	$ 0.23	$ 0.53	$ 0.76	$ (0.08)	$ –

Note 1 – 2009 income statement figures reflect Canadian Generally Accepted Accounting Principles ("GAAP") before the adoption of International Financial Reporting Standards ("IFRS"); 2009 balance sheet figures include the impact of changes related to the adoption of IFRS.
Note 2 – Comparative figures for 2012 have been adjusted to reflect the impact of IAS-19, adopted January 1, 2013.

CORPORATE AND SHAREHOLDER INFORMATION

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AUDITORS
Ernst & Young LLP
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR
Inquiries regarding change of address, registered shareholdings, share transfers, lost certificates and duplicate mailings should be directed to the transfer agent:
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Telephone: 1-800-564-6253
Fax: 1-800-453-0330
E-mail: service@computershare.com

STOCK EXCHANGE LISTING
Toronto Stock Exchange
Stock symbol: SQP

SHARES OUTSTANDING
13,164,900 at December 31, 2013

ANNUAL GENERAL MEETING
10:00 am Eastern Time
April 30, 2014
Dentons LLP
77 King Street West
Suite 400
Toronto, Ontario

DIRECTORS

John K. Bell [1]
Chairman, BSM Wireless Incorporated

Robert J. Beutel [1,2]
President, Oakwest Corporation Limited

Anne Brace [1]
Corporate Director

Ian C.B. Currie, Q.C. [2]
Corporate Director

Robert H.R. Dryburgh
President and Chief Executive Officer
Strongco Corporation

Colin Osborne, P.Eng. [2]
President and Chief Executive Officer
Vicwest Inc.

1. Member of Audit Committee
2. Member of Corporate Governance, Nominating, Compensation and Pension Committee

OFFICERS AND SENIOR MANAGEMENT

Robert J. Beutel
Chairman of the Board

Robert H.R. Dryburgh
President and Chief Executive Officer

Christopher D. Forbes
Vice President, Human Resources

William J. Ostrander
Vice President, Crane

Thomas J. Perks
Vice President, Corporate Development

Leonard V. Phillips, C.A.
Vice President, Administration
and Secretary

Stephen Slama
Vice President, Multiline

J. David Wood, C.A.
Vice President and
Chief Financial Officer

Stuart E. Welch
President, Chadwick-BaRoss, Inc.

Peter Duperrouzel
Director, Information Services

Oliver Nachevski
Regional Vice President, Case

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